Supreme Court, U.S.
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No. 97-1958

IN THE

Supreme Court of the United States

OCTOBER TERM, 1997

SMALL LANDOWNERS OF OAHU, AND RICHARD S.H. WONG, OSWALD K. STENDER, MARION M.L. LINDSEY, GERARD A. JERVIS, AND HENRY H. PETERS, in their capacities as Trustees of the Kamehameha Schools Bernice Pauahi Bishop Estate,

Petitioners,

v.

CITY AND COUNTY OF HONOLULU

Respondents,

and

HAWAII EQUITY LEASEHOLDERS' COALITION, a Hawaii non-profit corporation

Intervenor.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

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INTERVENOR'S BRIEF IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether rational-basis review is the appropriate standard for determining the validity of a municipal ordinance providing for a compensated condemnation of private property to effect a transfer of land ownership.

2. Whether a court should use a higher and stricter standard in reviewing a municipal ordinance which provides for a compensated taking.

LIST OF PARTIES

The parties to the proceeding before the United States Court of Appeals for the Ninth Circuit whose judgment is sought to be reviewed herein are as follows:

City and County of Honolulu, Hawaii

Hawaii Leaseholders' Equity Coalition ("HALE Coalition")

Small Landowners of Oahu

Gerard A. Jervis, as Trustee of the Kamehameha Schools Bernice Pauahi Bishop Estate

Marion M.L. Lindsey, as Trustee of the Kamehameha Schools Bernice Pauahi Bishop Estate

Henry R. Peters, as Trustee of the Kamehameha Schools Bernice Pauahi Bishop Estate

William S. Richardson, as Trustee of the Kamehameha Schools Bernice Pauahi Bishop Estate

Oswald K. Stender, as Trustee of the Kamehameha Schools Bernice Pauahi Bishop Estate

Matsuo Takabuki, as Trustee of the Kamehameha Schools Bernice Pauahi Bishop Estate

Myron B. Thompson, as Trustee of the Kamehameha Schools Bernice Pauahi Bishop Estate

Richard S.H. Wong, as Trustee of the Kamehameha Schools Bernice Pauahi Bishop Estate

RULE 29.6 STATEMENT

Pursuant to Rule 29.6 of the Rules of this Court, Intervenor-Respondent states the following:

Intervenor-Respondent Hawaii Leaseholders' Equity Coalition ("HALE Coalition") is a Hawaii non-profit corporation that has no corporate parents or wholly-owned subsidiaries.

TABLE OF CONTENTS

QUESTIONS PRESENTED i

LIST OF PARTIES ii

RULE 29.6 STATEMENT ii

TABLE OF AUTHORITIES iv

OPINIONS BELOW 1

JURISDICTION 1

CONSTITUTION AND STATUTORY PROVISIONS INVOLVED 2

I. STATEMENT OF THE CASE 2

II. REASONS FOR DENYING THE PETITION FOR CERTIORARI 9

A. THE LOWER COURTS PROPERLY APPLIED MIDKIFF IN REVIEWING ORDINANCE 91-95 9

B. THE RATIONAL BASIS STANDARD OF REVIEW IS APPROPRIATE IN REVIEWING THE ENACTMENT ENACTMENT OF LOCAL MEASURES BY A LOCAL GOVERNMENTAL BODY 15

III. CONCLUSION 19

TABLE OF AUTHORITIES

CASES

DePeyster v. Michael, 6 N.Y. 467 (1852) 4
Dolan v. City of Tigard, 512 U.S. 374 (1994) 8, 17, 18
Hawaii Housing Authority v. Midkiff, 467 U.S. 229 (1984) ..... passim
Lucas v. South Carolina Coastal Commission, 505 U.S. 1003 (1992) 8, 17, 18
Midkiff v. Tom, 483 F.Supp. 62 (D.Haw.1979) ..... passim
Nollan v. California Coastal Commission, 483 U.S. 825 (1987) 8, 17, 18
Palairet's Appeal, 67 Pa. 479 (1871) 4
People of Puerto Rico v. Eastern Sugar Associates,
156 F.2d 316 (1st Cir.1946) 9
Richardson v. City and County of Honolulu,
802 F.Supp. 326 (D.Haw.1992) ..... passim
Richardson v. City and County of Honolulu,
76 Haw. 46, 868 P.2d 493 (1994) 16, 17
Small Landowners of Oahu v. City and County of Honolulu,
832 F.Supp. 1404 (D.Haw.1993) ..... passim
Stewart v. Gorter, 70 Md. 242, 161 A 644 (1889) 4
Wilson v. Iseminger, 185 U.S. 55 (1902) 4

STATUTORY PROVISIONS

Hawaii's Land Reform Act, Chapter 516, Haw. Rev. Stat. (1967) 2, 3
Ordinance 91-95 §1 13
Ordinance 91-95 §1(a) 13
Ordinance 91-95 §2.6(a) 12
Ordinance 91-95 §2.6(b) 12
Ordinance 91-95, §1(a) 10, 11
Ordinance 91-95, §1(b) 18

CONSTITUTIONAL PROVISIONS

United States Constitution, Amendment V 2

RULES

Supreme Court Rule 15 2

OTHER AUTHORITIES

D.M. Ellis, *Landlord and Farmers in the Hudson-Mohawk Region*, 1790 4
Ezra, O'Connor Moon & Tam, *Leasehold Conversion of Condominiums and Cooperative Housing Projects*, November, 1987 16
J. Chinen, *The Great Mahale; Hawaii's Land Division of 1848*, (1958) 2

OPINIONS BELOW

The opinion of the Ninth Circuit Court of Appeals is reported at Richardson v. City and County of Honolulu, 124 F.3d 1150 (9th Cir.1997) (Respondent's Appendix A, 1a to 24a).[1] The opinions of the District Court deciding the constitutional challenge to the City and County of Honolulu's leasehold conversion and rent control ordinances and whose judgments were reviewed on a consolidated basis by the Court of Appeals, are Richardson v. City and County of Honolulu reported at 802 F.Supp.326 (D.Haw.1992) (Ezra, D.J.) ("Richardson") (Respondent's Appendix B, 25a to 50a), and Small Landowners of Oahu v. City and County of Honolulu reported at 832 F.Supp. 1404 (D.Haw.1993) (Fong, D. J) ("Small Landowners") (Respondent's Appendix C, 51a to 61a). The Court of Appeals affirmed the constitutionality of Ordinance 91-95. Ordinance 91-95 is reproduced at Respondent's Appendix D, 62a to 81a.

JURISDICTION

The United States Court of Appeals for the Ninth Circuit rendered its judgment and opinion on September 8, 1997 upholding the constitutionality of Ordinance 91-95. The timely petition for rehearing and suggestion for rehearing en banc was filed on September 18, 1997 by the Trustees of Kamehameha Schools Bernice Pauahi Estate (hereinafter "Bishop Estate"). The Court of Appeals denied the petition for rehearing on March 6, 1998.

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[1] Citations to the Respondent's Appendix will hereinafter be cited as "Resp.App. ___".

The Small Landowners of Oahu ("Small Landowners") and the Bishop Estate filed a Petition for a Writ of Certiorari on June 3, 1998.

The HALE Coalition files this Opposition to the Petition for a Writ of Certiorari pursuant to Supreme Court Rule 15.

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

The Takings Clause of the Fifth Amendment provides:

> [N]or shall privately property be taken for public use without compensation.

United States Constitution, Amendment V.

The statutory provision involved is Honolulu City and County Ordinance No. 91-95 (December 18, 1991).

I. STATEMENT OF THE CASE

This case is one-step in Hawaii's continuing efforts to modernize the state's centuries old land tenure system. *See* J. Chinen, The Great Mahale; Hawaii's Land Division of 1848, (1958).

Since the enactment of Hawaii's Land Reform Act, Chapter 516, Haw. Rev. Stat., in 1967, the state and local governments have implemented legislation to modernize the Hawaiian land ownership system. District Court Judge Samuel P. King in Midkiff v. Tom, 483 F.Supp. 62 (D.Haw.1979)[2] recognized that:

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[2] Midkiff v. Tom, 483 F.Supp. 62 (D.Haw.1979), rev'd. 702 F.2d 888 (9th Cir.1983) district court ruling reinstated in Hawaii Housing Authority v. Midkiff, 467 U.S. 229 (1984).

> "Hawai'i has an uncommon system of landholding. A substantial part of all residential land is held by a few interests and leased to a large number of residential lessees.

483 F.Supp. at 67 (hereinafter "Midkiff").

In Midkiff, the Kamehameha Schools Bernice Pauahi Bishop Estate ("Bishop Estate"), argued that they could demonstrate that all of the economic justifications for Chapter 516, Haw. Rev. Stat., the Land Reform Act, were incorrect and the state legislature was wrong in enacting the legislation allowing the condemnation of a ground lessor's interest and the transfer of the condemned interest to the owners of single family residences.

In upholding the Land Reform Act, District Judge King said that "all the Court had to do was look at the broadest possible rationale—

> "that of redistributing residential land and changing the pattern of residential ownership in Hawaii."[3]

483 F.Supp. at 67.

This Court, in the Midkiff case, recognized that the Hawaii's land holding system was a unique unwelcome legacy of the Nineteenth Century.

> "On this basis, we have no trouble concluding that the Hawaii Act is constitutional. The people of Hawaii have

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[3] Judge King further observed

> "All that the Court need rely on in the way of evidence to support this conclusion is the system of landholding in Hawaii—the concentration of land in a few large landholders. At the preliminary injunction hearing, [see Midkiff v. Tom, 471 F.Supp. 871 (D.Haw.1979)], there was testimony and documentary evidence concerning the way land is held in Hawaii. The Court believes that given this system of landholding, the Legislature had the right, pursuant to its police power, to conclude that the general welfare of the people of Hawaii was served by condemning the land of large landholder-lessors and allowing the lessees to purchase that land from the State. The Legislature had the right to conclude that Hawaii's system of landholding was injurious to the social and economic health of the community.

483 F.Supp. at 68.

> attempted, much as the settlers of the original 13 Colonies did, to reduce the perceived social and economic evils of a land oligopoly traceable to their monarchs. The land oligopoly has, according to the Hawaii Legislature, created artificial deterrents to the normal functioning of the State's residential land market and forced thousands of individual homeowners to lease, rather than buy the land underneath their homes."

Hawaii Housing Authority v. Midkiff, 467 U.S. 229, 241-42 (1984). [4]

When this Court upheld the right of the State of Hawaii to enforce "lease to fee" conversion for single family residences in Hawaii, the City and County of Honolulu, was left with the problem of leased fee ownership beneath the City's condominiums and other cooperative housing arrangements.

The condominium apartment owners attempted to enact legislation which would extend the Land Reform Act to fee interests in condominium-type projects and establish a limit on renegotiated rents for owner-occupants who could not purchase the fee interest.

The efforts resulted in the concurrent enactment of Ordinance 91-95 and Ordinance 91-96 by the City and County of Honolulu in December, 1991.

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[4] This Court noted that Hawaii, like the colonists after the American Revolution, took steps to eradicate the feudal incidents where large land owners encumbered tracts of land by long term leases with their tenants. This Court concluded the footnote, by observing

> "Courts have never doubted that such statutes served a public purpose. See, e.g. Wilson v. Iseminger, 185 U.S. 55-60-1, 22 S.Ct. 573, 574-75, 46 L.Ed. 804 (1902); Stewart v. Gorter, 70 Md. 242, 244-45, 16 A.644, 645 (1889)."

467 U.S. at 241, n.5.

In the Nineteenth Century, New York made a similar attempt to eliminate the colonial legacy of large landholdings being rented to lessee-occupants. See D.M. Ellis, Landlord and Farmers in the Hudson-Mohawk Region, 1790-1850, especially Chapter VII. "The Anti-Rent Movement 1839-1845" and Chapter VIII, "Antirentism in Politics" (1946) and DePeyster v. Michael, 6 N.Y. 467 (1852).

But See Palairet's Appeal, 67 Pa. 479, 5 Am.Rep. 450 (1871) (invalidating Pennsylvania statute for redemption of leased land).

Ordinance 91-95 became effective was enacted on December 18, 1991. That same day, the Bishop Estate filed the present action to enjoin the enforcement of both Ordinances.[5]

In Richardson v. City and County of Honolulu, 802 F.Supp. 326 (D.Hawaii 1992), Bishop Estate argued that (1) Ordinance 91-95 should be invalidated on the ground that it was nothing more than legislation which transferred land from one private party to another private party, and (2) the ordinance could not be supported as an attempt to breakup the concentration of land ownership because the concentration of land ownership, with respect to leasehold condominiums, "was not as drastic as the land oligopoly which resulted in the Land Reform Act."

Judge David Ezra rejected the Bishop Estate's argument that the concentration of land ownership in the leasehold condominium market was less concentrated than in the single family residence market at the time the Land Reform Act was enacted by noting that,

> "Bishop Estate's own filings reveal that in 1987, the land underlying 45% of the condominium projects was owned by only 51 lessors.... Furthermore, at the time Ordinance 91-95 was enacted, Bishop Estate alone owned the fee simple interest under approximately 12,500 of the leasehold condominium units."

802 F.Supp. at 341, n.24 (Resp. App. 43a).[6]

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[5] Ordinance 91-96 was invalidated in the same action and is the subject of HALE Coalition's conditional cross-petition for a writ of certiorari.

[6] The Petitioners at Appendix H, append the research report prepared in part by the law firm of Ezra, O'Connor Moon & Tam, entitled "Leasehold Conversion of Condominiums and Cooperative Housing Projects," Phase I, November, 1987 (hereinafter "Ezra Report"). Judge Ezra, the author of the Richardson case was the senior partner in the law firm which prepared the report for the State of Hawaii. The Ezra Report is attached as Appendix E at Resp. App. 82a to 89a.

Judge Ezra concluded that

> "[w]hile the current concentration of land ownership with respect to leasehold condominiums may not be as drastic as the land oligopoly which prompted the Land Reform Act, this contention does not undermine the City's determination that permitting leasehold condominium owners to purchase the underlying property serves a legitimate public purpose."

802 F.Supp. at 341 (Resp. App. 43a).

In Small Landowners of Oahu v. City and County of Honolulu, 832 F.Supp. 1404 (D.Haw.1983), the Small Landowners attacked the City Council's finding that land ownership was concentrated in the hands of owners who had refused to sell their fee simple interests to the owner-occupants. The Small Landowners, argued that the fee simple ownership of condominiums was spread among many owners and there was no concentration of ownership. Thus, the Small Landowners contended that there was no oligopoly in condominium ownership that would support the enactment of Ordinance 91-95, distinguishing the Midkiff case. 832 F.Supp. 1404 (Resp. App. 58a).

Judge Fong rejected the Small Landowners' characterization of the basis of Ordinance 91-95 as an unwarranted taking of private property since there was no land oligopoly, which had to be broken up. Rather, Judge Fong correctly saw the purpose of Ordinance 91-95 as a means of transferring ownership of the lease fee interests from lessors to owner-occupants because

> "ownership was concentrated among landowners who have refused to sell. That almost proves itself because landowners who have agreed to sell are no longer owners."

The Ezra Report concludes that "on Oahu (City and County of Honolulu), where the majority of residential condominiums and cooperative projects are located, 60% or 518 of the projects and over 70% or 53,898 of the units are leasehold."

832 F.Supp. at 1410 (Resp. App. 58a).

In Small Landowners, the district court also noted that the City Council had ample testimonial evidence supporting the finding that Ordinance 91-95 was enacted to remedy the problem of fee owners who refused to sell to owner-occupants.

On appeal by both the Bishop Estate and the Small Landowners, the Ninth Circuit, in sustaining the constitutionality of Ordinance 91-95, recognized the unique Hawaiian feudal-like land ownership system that was "remarkably resistant to change."

The Court of Appeals noted that this long-standing pattern of land ownership resulted in a market where, in the late 1980s, the largest 18 landowners in the state owned 40% of the available land, the 72 largest owners owned 47% of the land, while the federal and state government owned 49% of the remaining land. Bishop Estate itself owned 20% of the condominium ground leases on Oahu. Richardson v. City and County of Honolulu, 124 F.3d 1154 (Resp. App. 3a).

These land concentration statistics lead the Court of Appeals to conclude that "little is left for the rest of the population." Id.

The Ninth Circuit panel also addressed the Petitioners' argument that there was no "public use" supporting the enactment of Ordinance 91-95.

Unlike Midkiff, Ordinance 91-95, according to the Ninth Circuit, was

> "...not grounded on the desire of breaking up a land oligopoly. Rather, the City enacted the Ordinance to strengthen Oahu's economy and remedy perceived failures in its real property market."

124 F.3d at 1158 (Resp. App. 9a).

The Appeals Court found that correcting the failure in the real estate market caused by condominium ground lessors who would not sell their leased fee

interests to the condominium owner-occupants, was a legitimate public use of the power of eminent domain.[7]

The lack of a legitimate "public use" and the absence of evidence supporting Ordinance 91-95 were raised as grounds for invalidating Ordinance 91-95 by the Bishop Estate and the Small Landowners in three courts, twice in the District Court in Hawaii and once at the appellate level in the Ninth Circuit. Each time, the several courts rejected the Petitioners' arguments.

For good reason the trial courts and the Ninth Circuit have rejected the Petitioners' arguments that a review of the "public use" justification for Ordinance 91-95 requires a higher and stricter scrutiny because of the post-Midkiff decisions of this Court,[8] which call for a more rigorous and stricter review of the stated legislative purpose than the rational basis test provided for in Midkiff in the context of *uncompensated, regulatory takings*.

In addition to the argument that the courts should have reviewed the legislative purpose and findings Ordinance 91-95 under a strict scrutiny test, the Petitioners also raise the issue that a stricter standard of review should be used when the

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[7] In response to the allegations that the City Council failed to establish concentration of ownership, the Court of Appeals compared concentration rates at the time of Midkiff and at the enactment of Ordinance 91-95. The City Council hearings established that the 20 largest landowners owned 34.9% of the land under condominiums in Honolulu and the largest 60 landowners owned 50.4% of the ground area. The Court concluded that while the largest 20 landowners owned a smaller percentage of land underneath condominiums than the largest 22 owned of the fee simple titles under single-family residences in Midkiff, nonetheless,

> "the concentration of ownership of land underneath condominiums is greater than the concentration of land ownership throughout the state at the time Midkiff was decided."

Sixty (60) persons owned 50.4% of the ground leases under Honolulu condominiums while at the time of Midkiff, 72 private landowners owned 47% of the land statewide. 124 F.3d at 1159 (Resp. App. 10a).

[8] These cases are Nollan v. California Coastal Commission, 483 U.S. 825 (1987) ("Nollan"); Lucas v. South Carolina Coastal Commission, 505 U.S. 1003 (1992) ("Lucas") and Dolan v. City of Tigard, 512 U.S. 374 (1994) ("Dolan").

power of eminent domain is exercise by a local governmental body rather than a state legislature.

II. REASONS FOR DENYING THE PETITION FOR A WRIT OF CERTIORARI

The Petitioners argue that their Petition for a Writ of Certiorari should be granted in order to revisit the Midkiff case and the standard for reviewing and deference to be accorded to the "public use" determination of a governmental body, especially a local governmental entity, in the case of compensated takings.

HALE Coalition opposes the granting of the Petition for Writ of Certiorari on the grounds (1) the reviewing courts properly applied the Midkiff rational-basis standard to review the City Council's exercise of its eminent domain authority in the context of a compensated taking, and (2) a local governmental body is the appropriate entity to exercise the power of condemnation when the problem is uniquely local and not of statewide interest and a court should use the rational basis standard in reviewing legislation enacted by a local governmental body effecting strictly local concerns.

A. THE LOWER COURTS PROPERLY APPLIED MIDKIFF IN REVIEWING ORDINANCE 91-95

This case, like Midkiff, presents this Court with a second opportunity to review Hawaii's attempt to modernize its feudal-like land tenure system.[9]

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[9] In the Twentieth Century only Hawaii and Puerto Rico have enacted legislation to modernize their land tenure systems through government condemnation. In the People of Puerto Rico v. Eastern Sugar Associates, 156 F.2d 316 (1st Cir.1946) *cert. denied*, 329 U.S. 722, 67 S.Ct. 190, 91 L.Ed. 664 (1946), the First Circuit Court of Appeals sustained a commonwealth-wide agricultural land tenure modernization program to transfer private lands controlled by large corporations into the control of local residents. In the Midkiff case, this Court recognized the parallels between Hawaii's efforts to restructure the land tenure system for single-family residences and, in the Puerto Rico case, with the *agricultural land ownership patterns*. See Midkiff, 467 U.S. at 242.

In Midkiff, this Court upheld Hawaii's efforts to break up an oligopolistic land tenure system relating to ground leases for single-family residences under a rational-basis standard of review.

With respect to condominiums, where the problem was more localized to the City and County of Honolulu, the Honolulu City Council, sought to alter the land owning system under the City's condominiums and cooperatives by allowing the owner-occupants to purchase the leased fee interests from the ground lessors.

In December 1991, the Honolulu City Council enacted Ordinance 91-95, after extensive public hearings, including statements from condominium owners and lessees. The City Council, after the public hearings, found that "under the burden of increased lease rents, many owner-occupants of residential condominium apartments... especially those on fixed incomes, have found, and will continue to find themselves unable to afford to continue living in their homes." Ordinance 91-95, §1(a) (Resp. App. 62a-63a).

Many of these owner-occupants faced renegotiated ground lease rents of over 1000 percent higher than the rent for the previous period, and the City Council found that

> "[I]f they are displaced from there, these owner-occupant lessees could be displaced entirely from the ranks of homeowners because of Oahu's continuing housing crisis."

To alleviate this potential housing crisis, many of the lessees wanted to convert their leases to fee ownership, but the refusal of the condominium landowners to sell their leased fee interest to the lessees "has resulted in a serious shortage of fee simple residential condominium land... and in an artificial inflation of the value of such land on Oahu." See Ordinance 91-95, §1(a).

This is the real purpose of Ordinance 91-95, facilitating the transfer of the fee simple interest from the ground lessors who refuse to sell to the owner-occupants. The Ordinance was an effort to facilitate a uniting of the ownership of land and apartment units in the hands of owner-occupants.

Due to the shortage of fee simple residential condominium land, the refusal of the ground lessors to sell to the apartment owners and the artificially high land prices, the Honolulu City Council found that many people on Oahu had been deprived of an opportunity to purchase a fee simple interest in the land beneath their own condominium units. Given the inability to purchase their proportionate share of the land underlying their condominiums, owner-occupants,

> "have been forced to accept long-term leases or renewed leases of such land which contain terms and conditions that are financially disadvantageous to them... [and] ... are weighted heavily in favor of the landowners; or [if they cannot afford the renegotiated lease rent] surrender title to and possession of their residential condominium... at the expiration of their current leases."

If, the owner-occupants of the condominium units were allowed to purchase the lease fee

> "at fair and reasonable prices and the ability of such lessees and owners to fully enjoy such land through proportionate ownership of such land in fee simple [would] alleviate these conditions and will promote the economy of Oahu and public interest, health, welfare, security and happiness of such lessees and owners."

To accomplish this objective, the City Council decided to enact Ordinance 91-95 to change the "present patterns of such [condominium] land ownership on Oahu by allowing residential condominium lessees... under leases of such land to purchase in

fee simple... [which] will help to satisfy the pressing public necessity for a secure, strong and stable Oahu economy." See Ordinance 91-95, §1(a) (Resp. App. 64a).

In order to advance the public interest and maintain a "secure, strong and stable Oahu economy," the Honolulu City Council decided to exercise its eminent domain authority to condemn the fee simple interests in residential condominiums where the ground lessors refused to sell to the owner-occupants; and thereby make these proportionate shares of the fee simple available for tenants

> "who are condominium lessees... under leases of such land on which their homes are situated, or who face eminent expiration of such leases and the potential surrender, altogether, of title to and possession of their residential condominium apartments... is for a public use and purpose."

Ordinance 91-95 was an attempt by the Honolulu City Council to restructure a century's old land ownership system, through the use of the City's eminent domain authority, by transferring the leased condominium land to the owner-occupants.

Although the Ordinance ultimately uses the power of condemnation, in §2.6(a) after an initial filing, the ground lessor and the lessees were requested

> "to negotiate the just compensation which the lessees will pay to the lessor to acquire the lessor's interest in the development."

As pointed out in §2.6(b) of the Ordinance, "preliminary negotiation shall be in advance of and shall not constitute any part of any action in condemnation or eminent domain." In short, the Ordinance encourages voluntary, cooperative and non-coercive transfers of the lessor's leased fee interest and only *after* these negotiations fail, would the City exercise its powers of eminent domain to transfer the leased fee interest to the owner-occupants, for full, fair and just compensation.

All of the prior court opinions recognized that the Honolulu City Council's "public use" or "public purpose" was to transfer to the owner-occupants their proportionate share of the ground lease underneath their condominiums so that (a) when the initial ground lease term expired, the owner-occupants would not have to renegotiate their rent at rates of up to 1000 percent of their initial rent, or (b) if the owner-occupant could not afford the renegotiated rent for the next rental period, abandon and surrender the apartment unit, for no compensation, to the ground lessor and effectively be dispossessed and homeless, after years of living in the condominium unit.[10]

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[10] Judge Ezra wrote

> The City... found that the owners of such leased land had generally refused to sell proportionate shares in the land underlying such unit. *Id.* As a result of this practice, the City determined that there exists "a serious shortage of fee simple residential condominium land, cooperative housing unit land and planned development land and [ ] an artificial inflation of the value of such land on Oahu." *Id.*
>
> Accordingly, the City concluded that owners of condominiums on leased land should be able to acquire the proportionate share of leased land underlying their units at a fair and reasonable price. In order to accomplish this objective, the City decided to use its eminent domain power to condemn the fee simple title to the land underlying condominiums, pay just compensation to the lessors/owners of such land, and sell the land to the condominium owners. Ordinance 91-95 §1(a) (Resp. App. 40a-41a).

In the present case, the City Council determined that ownership of land beneath residential condominium projects is concentrated in the hands of owners who have refused to sell proportionate shares in their fee simple interest titles to lessees residing in the condominium units. Ord. 91-95 §1. Thus, the City Council's primary concern was apparently the inability of the owners of leasehold condominiums to purchase proportionate shares of the underlying fee simple title. While the current concentration of land ownership with respect to leasehold condominiums may not be as drastic as the land oligopoly which prompted the Land Reform Act, the Court of Appeals found that the concentration of land ownership of land underneath condominiums was greater than the concentration of land ownership throughout the state at the time of the Midkiff decision. 124 F.3d at 1159 (Resp. App. 10a).

The evidence reviewed by the City adequately demonstrated that the land underneath the condominiums was not being sold and that the lack of such sales was driving up the price of housing in Honolulu.

As the Richardson and Small Landowners courts observed, the real problem was not the breaking up of a land oligopoly,[11] but the refusal of the ground lessors to sell the leased land to the owner-occupants.

The owner-occupants who are unable to afford the renegotiated rent, would be forced to surrender their owner-occupied apartments to the ground lessor without compensation, and the owner-occupants would be dispossessed of their unit and forced to look for new housing in an inflated Honolulu housing market.

The "public use" of Ordinance 91-95 is to create a market in leased fee land so that the present owner-occupants can be given the option of purchasing the land underneath their apartment unit at a fair price rather than pay the renegotiated rent, in some projects, at several hundred percent over and above their present rent.

The owner-occupants, confronting the renegotiated rent, have two options. First, the owner occupants can acquiesce and pay the renegotiated rent and continue to live in the apartment. Second, if the owner-occupant, many living on fixed incomes, cannot afford the renegotiated rent, then the owner-occupant must surrender the apartment unit at the end of the initial lease period, without compensation, to the ground lessor, be dispossessed and forced to relocate to other lodgings. This option, of paying a highly inflated ground lease rent or surrendering and abandoning the owner-occupant's unit, was found by the City Council to create a potential housing crisis and a destabilization of the Oahu economy.

The Honolulu City Council believed that the dispossession of large numbers of owner-occupants, because of Hawaii's unique feudal-like land tenure system

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[11] The City Council found 16,000 - 17,000 residential condominiums, cooperatives and planned developments on Oahu. Of these, Bishop Estate alone "owned the fee simple interest under approximately

and the high housing costs, would create a housing crisis and only the transfer of the fee interest to the owner-occupants, thereby uniting the ownership of the apartment unit and the land underneath the condominium project, would alleviate the problem.

Because of the dramatic increase in housing prices, in part caused by the failure of the real estate market to create fee simple ownership of condominium land, there was a possibility of a housing crisis for the dispossessed owner-occupants who could not afford to pay the renegotiated rent.

HALE Coalition submits that the City's use of its power of eminent domain to prevent a housing crisis resulting from a dispossession of the apartment-owners who could not afford the renegotiated rent was a valid "public purpose" and "public use" of its power of condemnation and under any test, the rational-basis or strict scrutiny, Ordinance 91-95 is a valid exercise of the City's police power. This is not an appropriate case for the Court to revisit or reconsider Midkiff because the rational-basis standard of review was properly used by the courts in reviewing Ordinance 91-95 as a *compensated taking*.

B. THE RATIONAL BASIS STANDARD OF REVIEW IS APPROPRIATE IN REVIEWING THE ENACTMENT OF LOCAL MEASURES BY A LOCAL GOVERNMENT BODY

The Petitioners contend that this Court should not give the same deference to the Honolulu City Council's findings and conclusions of public use because the City Council is a local body subject to parochial interests. Petitioner's Brief at pp. 17-18.

This argument by the Petitioners, that less deference should be shown and closer judicial scrutiny should be given to locally-enacted condemnation procedures

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12,500 of the leasehold condominium units." Small Landowners, 802 F.Supp. 341, n.24 (Resp. App. at 43a).

because local bodies, like the Honolulu City Council, may be subject to "the dangers of illegitimate decision making, especially with respect to takings of private property..." is not applicable to the case at bar.

This is a variation of the Bishop Estate's preemption argument in Richardson to the effect that given the state-wide importance of the lease to fee conversion for condominium projects, the state legislature not the Honolulu City Council, should have enacted legislation condemning leased fee interests for condominium projects.

Judge Ezra certified the question of preemption to the State Supreme Court. In Richardson v. City and County of Honolulu, 76 Haw. 46, 868 P.2d 1193 (1994), the Hawaii Supreme Court held that the City and County of Honolulu was not preempted by the state legislature in enacting lease to fee conversions for condominium units.

In fact, the State of Hawaii's study of Leaseholder Conversion of Condominium and Cooperative Housing Project Phase I, November 1987, the Ezra Report, established that condominium lease to fee conversion for owner-occupants was a uniquely Honolulu problem. See Leasehold Conversion of Condominiums and Cooperative Housing Projects, Phase I, attached as Appendix E (Resp. App. 82a to 89a).

In the Ezra Report, the study found approximately 16,400 units in Hawaii were owner-occupied leased condominiums. Sixteen thousand (16,000) of the 16,400 state-wide owner-occupied condominium units were located on Oahu. The neighbor islands,[12] had approximately 424 owner-occupied units. That means that approximately

[12] Including the Counties of Maui, Hawaii and Kauai.

98% of all owner-occupied condominium units statewide, were located in Honolulu. (Resp. App. 85a.)

Since less than 3% of the owner-occupied condominium units were located on the several neighbor islands, it can only be expected that the Honolulu City Council, which effectively is Oahu, would be concerned about the housing crisis caused by the rent renegotiations for the owner-occupied condominium units, where, if the owners could not afford the renegotiated rent, they would be forced to surrender their units, without compensation, and look for new housing in an inflated housing market.

The State of Hawaii Supreme Court in Richardson v. City and County of Honolulu, supra, recognized that the lease to fee conversion of condominium units was not preempted by the State and such lease to fee conversion legislation for condominiums could be enacted by the local governmental body.

The Honolulu City Council recognized that the problem of renegotiated rents, the possible dispossession of long-term owner-occupants; the surrender of the apartments by owner-occupants who could not afford the renegotiated rent and the resultant dislocation was a potential local crisis, not a statewide problem. With approximately 98% of the owner-occupied condominiums located in Honolulu, and just over 2% throughout the rest of the state, the Honolulu City Council was the appropriate legislative body to enact Ordinance 91-95.

The purpose of Ordinance 91-95 is to prevent present condominium owner-occupants from being dispossessed when the renegotiated rent becomes excessive and the owner-occupant is faced with the option of surrendering the unit to the ground lessor or accepting the renegotiated rent. This was a concern only in Honolulu, where virtually all owner-occupant condominiums are located.

Unlike Nollan, Lucas and Dolan, there is no question but the owner-occupants must pay just compensation and the reasonable value of the leased fee to the lessors. The purpose of Ordinance 91-95 is to avoid the problem of excessive rent imposed on the owner-occupant, with the owner-occupant given the choice of paying the new rent which could be as much as a 1000% increase over the present rent, or surrendering the unit to the ground lessor and looking for new housing in an inflationary housing market.

This was a uniquely local problem and given the thousands of owner-occupants to be effected, there is no grounds to impose a higher, stricter standard of review on the City Council's actions. If the Honolulu City Council was enacting an ordinance which exceeded the remedies necessary to alleviate a local problem, possibly the courts could have used a stricter standard of review. In this case, the problem was Honolulu-wide, not statewide, the remedy was limited and the consequences of failing to act disastrous.

While Ordinance 91-95 does not provide for direct public money to purchase the lease fee, it establishes a procedure whereby owner-occupants may purchase the lease fee from the ground lessors who refuse to sell, at a fair and reasonable price. See Ordinance 91-95, §1(b) (Resp. App. 64a).[13]

In this regard, Nollan, Lucas, and Dolan, and the use of the heightened strict scrutiny standard applicable in cases of uncompensated regulatory takings is not

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[13] The City proposes to use its eminent domain power.

> "and by providing for the public financing of such purchase and such condemnation and payment through the issuance of bonds, the expenditure of general revenue funds and the use of private funds which are at the disposal of the City."

Ordinance 91-95 §1(b).

justified because the ground lessor is fully and fairly compensated for the interest purchased by the owner-occupants and the Honolulu City Council dealt with the uniquely local problem with a local remedy.

III. CONCLUSION

Hawaii Equity Leaseholders' Coalition respectfully requests this Court deny the Petition for Writ of Certiorari filed by the Petitioners, the Bishop Estate and the Small Landowners of Oahu.

Respectfully submitted

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Admitted to the Bar of the United States Supreme Court on December 31, 1979

APPENDICES

APPENDIX A

UNITED STATES COURT OF APPEALS
NINTH CIRCUIT

Nos. 94-16041, 94-16142,
94-16143 and 94-16327

WILLIAM S. RICHARDSON; HENRY H. PETERS, JR.; OSWALD K. STENDER, MYRON B. THOMPSON, and MATSUO TAKABUKI, in their capacities as Trustees of the KAMEHAMEHA SCHOOLS/BERNICE PAUAHI BISHOP ESTATE,
Plaintiffs-Appellants,

V.

CITY AND COUNTY OF HONOLULU,
a Hawaii Municipal Corporation,
Defendant-Appellee,

and

HALE COALITION,
Intervenor.

WILLIAM S. RICHARDSON; HENRY H. PETERS, JR.; OSWALD K. STENDER, MYRON B. THOMPSON, and MATSUO TAKABUKI, in their capacities as Trustees of the KAMEHAMEHA SCHOOLS/BERNICE PAUAHI BISHOP ESTATE,
Plaintiffs-Appellees,

and

HALE COALITION,
Intervenor,

CITY AND COUNTY OF HONOLULU,
a Hawaii Municipal Corporation,
Defendant-Appellant.

WILLIAM S. RICHARDSON; HENRY H. PETERS, JR.; OSWALD K. STENDER, MYRON B. THOMPSON, and MATSUO TAKABUKI, in their capacities as Trustees of the KAMEHAMEHA SCHOOLS/BERNICE PAUAHI BISHOP ESTATE,
Plaintiffs-Appellees,

V.

HAWAII LEASEHOLDERS EQUITY COALITION,
Intervenor-Appellant,

and

CITY AND COUNTY OF HONOLULU
a Hawaii Municipal Corporation,
Defendant.

SMALL LANDOWNERS OF OAHU,
Plaintiff-Appellant,

V.

CITY AND COUNTY OF HONOLULU '
Defendant-Appellee.

Argued and Submitted Nov. 2, 1995
Decided Sept. 8, 1997

Appeals from the United States District Court for the District of Hawaii; David A. Ezra, District Judge, Presiding. D.C. No. CV-91-00725-DAE.

Appeal from the United States District Court for the District of Hawaii; Harold M. Fong, District Judge, Presiding. D.C. No. CV-92-00372-HMF.

Before: HUG, Chief Judge, THOMPSON and O'SCANNLAIN, Circuit Judges.

HUG, Chief Judge:

OPINION

In these consolidated cases we are asked to determine the constitutionality of two land reform ordinances passed by the City Council for the City and County of Honolulu (the "City"). Ordinance 91-95 provides a mechanism for converting leasehold interests in condominium units to fee interests, through the use of the City's condemnation power. Ordinance 91-96 is a rent control measure that limits increases in ground rent due the owner of the land under the condominium units. The trustees of the Bishop Estate ("Bishop Estate") brought an action before District Judge Ezra contesting the constitutionality of both ordinances. The Small Landowners of Oahu ("Small Landowners") brought a separate action before District Judge Fong. Judges Ezra and Fong each entered summary judgments upholding Ordinance 91-95. Judge Ezra also entered a summary judgment holding Ordinance 91-96 (the rent control ordinance) unconstitutional. We have jurisdiction under 28 U.S.C. § 1291 and we affirm.

I. BACKGROUND

Prior to American acquisition, Hawaii developed an extensive feudal land ownership system that has proved remarkably resistant to change. Although Hawaiian leaders and American settlers have repeatedly attempted to divide the large Hawaiian land estates, the results have generally been unsuccessful. As of the late 1980's, the largest eighteen landowners in the state owned 40% of the available land. L.A. Powe, Jr., *Economic Make-Believe in the Supreme Court,* 3 Const. Comm. 385, 389 (1986). The seventy-two largest landowners owned 47%. *Id.* With the federal and state government owning 49% of the land in the state, *id.*, little is left for the rest of the population. As might be expected in an area of desirable real estate with little land for sale, the price of owning land in Hawaii has grown exponentially over the past several decades.

The large private landowners have adopted a pattern of leasing their land for long terms rather than selling it. Often the land is leased to a developer who builds condominiums[1] on the property. The condominiums are then sold subject to the ground lease. Sometimes the landowners themselves build and sell the condominiums, subject to a

[1] For purposes of this opinion, unless otherwise noted, references to "condominiums" or "condominium properties" include condominium property regime developments, cooperative housing corporation developments, and planned unit developments, which are the three types of developments addressed by Ordinances 91-95 and 91-96.

ground lease. The leases, commonly for 55 years or longer, require a substantial initial payment and lease payments for 25 to 30 years at a fixed rate. At the end of the initial term, the rent is renegotiated pursuant to the terms of the lease. The new rent usually is based on the market value of the unimproved land as described in the lease. Stated another way, the renegotiated rent is fixed at a percentage of the market value of the parcel underneath the condominium exclusive of improvements *(i.e.,* the condominium).[2] In almost all cases, the renegotiated rent substantially exceeds the initial fixed rate.

To break up this pattern of land ownership and control the escalating prices of housing, the City passed Ordinances 91-95 and 91-96 on December 18, 1991.

That day the appellants in *Richardson* filed suit in federal court before Judge Ezra seeking declaratory and injunctive relief. The *Richardson* appellants are trustees of the Bishop Estate, a charitable trust established in 1884 under the will of Ke Ali'i Bernice Pauahi Bishop, the great-granddaughter of King Kamehameha I, to erect and maintain schools for indigents and orphans who are native Hawaiians. The Bishop Estate owns the fee simple title to the land underneath condominiums in Honolulu that are affected by the Ordinances.[3] A group of condominium owners calling themselves the Hawaii Leaseholders Equity Coalition (the "HALE coalition") was granted permission to intervene in the action as an interested party.

On February 14, 1992, the Bishop Estate filed a partial motion for summary judgment. On June 8, 1992, the HALE Coalition also moved for partial summary judgment. On June 9, 1992, the City filed a cross-motion for summary judgment on all counts.

Meanwhile, on June 12, 1992, the Small Landowners, a nonprofit membership corporation representing landowners who own smaller plots of land underneath condominium projects, filed a separate complaint in federal court before Judge Fong seeking a declaration that Ordinances 91-95 and 91-96 were constitutionally invalid. The Small Landowners moved to consolidate their action with (or alternatively, to intervene in) the action instituted by the Bishop Estate. The motion was denied and the Small Landowners' suit proceeded separately.

On September 16, 1992, Judge Ezra (1) declared Ordinance 91-96 unconstitutional on its face under the Takings Clause; (2) held that Ordinance 91-95 was facially constitutional under the Public Use, Just Compensation, Due Process, and Equal Protection Clauses of the federal and Hawaii constitutions; and (3) certified to the Hawaii

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[2] An example provided by the landowners in their brief is illustrative. The lessees of one apartment purchased their unit in January of 1988 for $986,500, and assumed the existing ground lease. They currently pay $45 per month in ground lease rent and will continue to do so until the 30-year fixed rent period expires in 1997. At that time, the lease fixes the new rent at six percent of the fair market value of the land exclusive of improvements. If the period had ended in 1991, the parties to the lease might have used the real property tax assessed value used by the City as the fair market value of the land exclusive of improvements. In 1991 the real property tax assessed value used by the City for the land appurtenant to the unit was $213,300. The new ground lease rent would be 6% of that figure, which is $12,798 per year, or $1,066 per month.

[3] The City contends that the Bishop Estate owns approximately 20% of the condominiums on Oahu. The Bishop Estate does not refute this number.

Supreme Court the question whether Ordinance 91-95 was preempted by state law. *See Richardson v. City & County of Honolulu,* 802 F.Supp. 326 (D.Haw.1992).

The Small Landowners and the City subsequently stipulated to dismiss the Small Landowners' claim regarding Ordinance 91-96. The parties also agreed to dismiss the Small Landowners' claims regarding state law preemption, because those questions would be decided by the Hawaii Supreme court in the *Richardson* case. On September 16, 1993, Judge Fong issued his order holding that Ordinance 91-95 was facially constitutional under the Takings, Due Process, and Equal Protection Clauses of the federal and Hawaii constitutions, and that the Small Landowners' claims that Ordinance 91-95 failed to provide just compensation or comply with the City's Charter were unripe. *See Small Landowners of Oahu v. City & County of Honolulu,* 832 F.Supp. 1404 (D.Haw.1933).

On February 22, 1994, the Hawaii Supreme Court answered the certified question from *Richardson* in the negative, *Richardson v. City & County of Honolulu, 76* Hawai'i 46, 868 P.2d 1193 (1994), and on April 12, 1994, Judge Ezra adopted the Hawaii Supreme Court's answer. On April 18, 1994, Judge Ezra entered final judgment. Judge Fong entered final judgment in *Small Landowners* on June 20, 1994. All parties filed timely notices of appeal. Because of the similar issues presented, the two actions were consolidated before this court after oral argument.

II. ORDINANCE 91-95

A. THE STATUTE

Ordinance 91-95, which closely parallels Hawaii's Land Reform Act of 1967, creates a mechanism through which condominium owners can convert their leasehold interests into fee simple interests. When at least 25 owners in a condominium complex or the owners of 50% of the units, whichever is less, apply to purchase their leased fee interest, the Ordinance's condemnation procedure is triggered. The Department of Housing and Community Development (the "Department") then determines if the property is proper for condemnation. The Department will begin condemnation proceedings within twelve months unless the owner agrees to voluntarily sell the leased fee interest to the lessees. If the Department condemns the land, the lessee must purchase the land from the City within 60 days.

In conjunction with enacting the Ordinance, the City made several findings regarding the concentration of land in Honolulu and the effects of such concentration on the local economy. First, the City found that landowners have refused to sell proportionate shares in their fee simple titles and that the few sales that occurred involved exorbitant prices. Honolulu City & County, Haw. Ordinance 91-95, § 1 (a). This refusal to sell fee simple titles along with other factors, has caused a dramatic increase in the price of housing in Honolulu. *Id.* The City further found that persons wishing to reside on Oahu were forced to sign long-term leases that provide for periodic rent renegotiation. *Id.* These conditions have led to

> the acute recent inflation of land costs [that] has adversely affected lease rent negotiations of persons who have purchased leasehold multi-family units as their homes: in some

> instances renegotiations have resulted in lease rents that have increased over 1,000 percent. Under the burden of increased lease rents, many owner-occupants of residential condominium apartments . . ., especially those on fixed incomes, have found, and will continue to find themselves unable to afford to continue living in their homes.

Id. Moreover, the City determined that these defects in the housing market would adversely affect the City's economy:

> There is a close relationship between the monetary values accorded land on Oahu and the stability and strength of Oahu's economy as a whole. Residential condominium . . . land values, artificially inflated by concentrated or single ownership, market conditions or other factors, skew Oahu's economy toward unnecessarily high levels. The pervasive and substantial contribution made to inflation by high residential condominium . . . land values creates a potential for economic instability and disruption on Oahu. Economic inflation, instability and disruptions on Oahu have real and potential damaging consequences for all members of an affected society.

Id. The City thus decided to exercise its power of eminent domain to establish a proper real estate market in Honolulu and to reduce the potential for economic instability on Oahu.

B. THE PUBLIC USE CLAUSE

The Bishop Estate and the Small Landowners (collectively the "landowners") argue that Ordinance 91-95 violates the Public Use Clause of the United States and Hawaii constitutions. The Fifth Amendment of the United States Constitution provides that "private property [shall not] be taken for public use, without just compensation." U.S. Const. amend. V. This provision applies to the states through the Fourteenth Amendment. *See Missouri Pac. Ry. v. Nebraska,* 164 U.S. 403, 417, 17 S.Ct. 130, 135, 41 L.Ed. 489 (1896). Municipalities possessing delegated eminent domain power also are subject to the restrictions of the Fifth and Fourteenth Amendments. *See Chicago B. & Q. R.R. Co. v. City of Chicago,* 166 U.S. 226, 238-39, 17 S.Ct. 581, 585-86, 41 L.Ed. 979 (1896). Similarly, the Hawaii Constitution provides that "[p]rivate property shall not be taken or damaged for public use without just compensation." Haw. Const. art. I., § 20.

The landowners argue that Ordinance 91-95 is unconstitutional because it takes land for the benefit of private persons and, alternatively, that its public purpose is not served by its mechanism. As noted above, the Ordinance is similar to Hawaii's Land Reform Act of 1967[4] (the "Act"), which was upheld on public use grounds in *Hawaii Housing*

[4] The Act was designed to compel large landowners to break up their estates. Under the Act, tenants who lease and live on single-family residential lots within developmental tracts at least five acres in size can ask the Hawaii Housing authority ("HHA") to condemn the property on which they live. When half of the tenants in the tract, or 215 tenants, whichever is less, file an application, the HHA can acquire some or all of the lots in the Act by condemnation. The HHA then can sell the lots to the tenants.

Authority v. Midkiff, 467 U.S. 229, 104 S.Ct. 2321, 81 L.Ed.2d 186 (1984). Because of the Ordinance's similarity to the Act, we begin our analysis with *Midkiff.*

In that case, the Supreme Court upheld the Act, concluding that Hawaii could constitutionally use its power of eminent domain to break up a land oligopoly. *Id.* at 241-42, 104 S.Ct. at 2329-30. The Supreme Court rejected the landowners' arguments that the Act violated the public use requirement of the Taking Clause.[5] The Court stated, "The 'public use' requirement thus is coterminous with the scope of a sovereign's police powers." *Id.* at 240, 104 S.Ct. at 2329.

Thus, as the Court noted, the judiciary's role in reviewing the legislature's judgment regarding public use is extremely narrow. *Id.* The judiciary should defer to the legislature's public use determination unless the use involves an "impossibility" or is "palpably without reasonable foundation." *Id.* at 240-241, 104 S.Ct. at 2329-30. The Court further noted that "where the exercise of the eminent domain power is rationally related to a conceivable public purpose, the Court has never held a compensated taking to be proscribed by the Public Use Clause." *Id.* at 241, 104 S.Ct. at 2329-30.

Applying that test, the Court noted that the state legislature determined a land oligopoly existed in Hawaii. The Court reasoned that regulating the "oligopoly and the evils associated with it is a classic exercise of a State's police powers." *Id.* at 242, 104 S.Ct. at 2330. Even though the Act's result was to turn land over from one private owner to another, the Court held that the statute's purpose was sufficiently public, *See id.* at 241, 104 S.Ct. at 2329. Finally, the Court noted that using a lease-to-fee transfer statute to regulate that oligopoly was not irrational. *Id.* Accordingly, the Court upheld the Act.

The analysis under the Hawaii Constitution is similarly deferential to the legislature's public use determination.

> [O]nce the legislature has spoken on the social issue involved, so long as the exercise of the eminent domain power is rationally related to the objective sought, the legislative public use declaration should be upheld unless it is palpably without reasonable foundation. The crucial inquiry is whether the legislature might reasonably consider the use public, and whether it rationally could have believed that application of the sovereign's condemnation powers would accomplish the public use goal.

Hawaii Housing Authority v. Lyman, 68 Haw. 55, 704 P.2d 888, 897 (1985) (internal citation omitted).

In the present action, both district courts determined that *Midkiff* controlled the outcome of this dispute. Because the statute in *Midkiff* and Ordinance 91-95 are so similar, both courts found no merit in the Landowner's public use arguments. Before this court, the landowners seek to distinguish *Midkiff* on several grounds: (1) that the standard of review has changed since *Midkiff;* (2) that the public purpose of the Ordinance is not as compelling

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[5] The landowners in *Midkiff* were trustees of the Bishop Estate, the appellants in the *Richardson* action.

as the purpose asserted in *Midkiff;* and (3) that the means of effectuating the purpose is irrational in light of developments since *Midkiff.* We discuss each of these arguments.

1. Change in the standard of review

The landowners argue that, in light of *Dolan v. City of Tigard,* 512 U.S. 374, 114 S.Ct. 2309, 129 L.Ed.2d 304 (1994), *Lucas v. South Carolina Coastal Council,* 505 U.S. 1003, 112 S.Ct. 2886, 120 L.Ed.2d 798 (1992) and *Nollan v. California Coastal Comm'n,* 483 U.S. 825, 107 S.Ct. 3141, 97 L.Ed.2d 677 (1987), the deference given in *Midkiff* to the legislative body's public use findings is inappropriate. The landowners assert that those cases require heightened scrutiny. We conclude that those cases are not applicable because they involved uncompensated regulatory takings, in which the issues are quite different.

In a regulatory taking case, the court must determine whether a putative regulatory action masks a taking. For example, in *Dolan,* the most recent case, a shop owner in Oregon brought suit against the City of Tigard. She had applied for a permit needed to expand her store and pave a parking area. *Dolan,* 512 U.S. at 379, 114 S.Ct. at 2313-14. The city's planning commission granted the permit application, but only on the condition that the shop owner dedicate to the city part of her property that was within a floodplain plus a 15 foot strip of land for use as a pedestrian pathway. *Id.* at 379-80, 114 S.Ct. at 2313-14. The shop owner filed suit alleging that the condition was an unconstitutional regulatory taking.

Dolan, as well as *Lucas* and *Nollan,* are quite different from the cases before us. At bottom, those cases involve balancing the authority of state and local governments to engage in land use planning against the property rights of individuals. *See Dolan,* 512 U.S. at 383-86, 114 S.Ct. at 2315-17. The primary issue is whether the landowner is to receive just compensation. *See e.g., id.* at 385, 114 S.Ct. at 2317 ("Under the well-settled doctrine of 'unconstitutional conditions,' the government may not require a person to give up a constitutional right here the right to receive just compensation when property is taken for a public use in exchange for a discretionary benefit conferred by the government where the property sought has little or no relationship to the benefit."). That is, if the Court would have upheld the putative regulatory actions in those cases, the landowners' property would have been subject to the challenged land restriction and the owner would not have been entitled to compensation for the diminution in land value. The heightened scrutiny applied in *Dolan* thus is necessary to prevent the government from using its regulatory power to force individuals to bear burdens that properly should be born by the public. *See id.*, at 389, 114 S.Ct. at 2319 ("We think this standard is too lax to adequately protect petitioner's right to just compensation if her property is taken for a public purpose.").

Conversely, in the cases before us, the government has expressly exercised its condemnation power and will compensate the landowners. Here, as in *Midkiff,* the requirement of just compensation ensures that individuals will not be forced to bear public burdens, which in all fairness should be borne by the public as a whole. Heightened scrutiny thus is inappropriate. The language used throughout *Midkiff* indicates that deference to the legislative body's public use determination is required when the taking is fully compensated. *See e.g., Midkiff,* 467 U.S. at 241, 104 S.Ct. at 2329-30 ("[W]here the exercise of the eminent domain power is rationally related to a conceivable public purpose, the Court has

never held a compensated taking to be proscribed by the Public Use Clause."). For these reasons, we believe that *Nollan-Lucas-Dolan* trio does not signal a change from this long standing rule of deference because we see nothing inconsistent in applying heightened scrutiny when the taking is uncompensated, and a more deferential standard when the taking is fully compensated.

We hold, therefore, that the standard of review to be used in examining Ordinance 91-95 is the minimum scrutiny test espoused in *Midkiff.* We will defer to the City's determination regarding public use unless the use involves an "impossibility" or is "palpably without reasonable foundation." *Midkiff,* 467 U.S. at 240-41, 104 S.Ct. at 2329.

2. The rationality of the public purpose

Unlike the statute at issue in *Midkiff,* the Ordinance is not grounded on the desire of breaking up a land oligopoly. Rather, the City enacted the Ordinance to strengthen Oahu's economy and remedy perceived failures in its real estate market. The City found:

> There is a close relationship between the monetary values accorded land on Oahu and the stability and strength of Oahu's economy as a whole. Residential condominium, cooperative housing and planned development land values, artificially inflated by concentrated or single ownership, market conditions or other factors, skew Oahu's economy toward unnecessarily high levels. The pervasive and substantial contribution made to inflation by high residential condominium, cooperative housing and planned development land values creates a potential for economic instability and disruption on Oahu. Economic inflation, instability and disruptions on Oahu have real and potential damaging consequences for all members of an affected society. Checking inflation, improving the stability of the economy, and avoiding disadvantageous economic disruptions all are productive of general benefit to all members of Oahu's community.

Honolulu City & County, Haw. Ordinance 91-95 § 1 (a).

This purpose--remedying a failure in the real estate market and strengthening the economy--is a public purpose. *See Midkiff,* 467 U.S. at 242, 104 S.Ct. at 2330 (land oligopoly caused failure in real estate market; regulating evils associated with oligopoly is classic exercise of police power); *Berman v. Parker,* 348 U.S. 26, 75 S.Ct. 98, 99 L.Ed. 27 (1954) (affirming the constitutionality of the District of Columbia Redevelopment Act of 1945, which provided for the condemnation of slum areas for possible sale to private interests). The landowners contend, however, that the evidence presented to the City does not support the stated public purpose. They assert that, contrary to the City's findings, ownership of condominium units is not concentrated in the hands of large landowners and that landowners do sell proportionated shares of their fee simple titles. Thus, they argue that because the City incorrectly determined these facts, the findings do not support the Ordinance's stated public purpose.

Under the standard espoused in *Midkiff,* we must accept the public purpose of the Ordinance unless the City's findings are "palpably without reasonable foundation." *Midkiff*, 467 U.S. at 241, 104 S.Ct. at 2329. The City held three days of public hearings before enacting the Ordinance. The City determined that the price of condominiums was higher because the ownership of the fee simple titles to the land underneath the condominiums was excessively concentrated. While the hearings produced conflicting testimony, one study presented to the City showed that the largest 20 Landowners own 34.9% of the land under condominium units in Honolulu, and that the largest 60 own 50.4%. Legislative Reference Bureau, Report No. 6, *Ownership Patterns of Land Beneath Hawaii's Condominiums and Cooperative Housing Projects* 21 (1987) (Ownership Patterns). While the largest 20 landowners own a smaller percentage of land underneath condominiums than the largest 22 owned of the fee simple titles when the Court decided *Midkiff, see Midkiff,* 467 U.S. at 232, 104 S.Ct. at 2325, the concentration of ownership of land underneath condominiums is greater than the concentration of land ownership throughout the state at the time *Midkiff* was decided. *Compare Ownership Patterns* at 21 (60 persons own 50.4% of land under condominiums), with *Midkiff,* 467 U.S. at 232, 104 S.Ct. at 2325 (72 persons own 47% of land in Hawaii). We thus cannot say that the City's finding is without reasonable foundation.

Similarly, the evidence presented to the City regarding the amount of fee simple lands for sale underneath condominiums was conflicting. We are not free to substitute our judgment for that of the City. The evidence reviewed by the City adequately demonstrated that the land underneath the condominiums was not being sold and that the lack of such sales was driving up the price of housing in Honolulu. We therefore must accept the City's asserted public purpose because its findings are not without reasonable foundation. *See Midkiff,* 467 U.S. at 241, 104 S.Ct. at 2329 ("In short, the Court has made clear that it will not substitute its judgment for a legislature's judgment as to what constitutes a public use 'unless the use be palpably without reasonable foundation.' ") (citation omitted).

3. The reasonableness of the means used

The landowners also argue that, between 1987 and 1990, the price of condominiums in Hawaii increased by 66%. However, the price of single-family dwellings--which were subject to the Act's lease-to-fee provision--increased by 98%. Dep't of Business and Economic Dev., *The State of Hawaii Databook 1990: A Statistical Abtract* 549 (1990). Thus, the landowners argue that even if a lease-to-fee statute was reasonably related to eliminating a land oligopoly at the time of *Midkiff,* such means are not rationally related to remedying a failure in the real estate market and strengthening the economy in light of recent history.

Deference to the legislative body's public use determination is required " 'until it is shown to involve an impossibility.'" *Midkiff,* 467 U.S. at 240, 104 S.Ct. at 2329 (quoting *Old Dominion Co. v. United States,* 269 U.S. 55, 66, 46 S.Ct. 39, 40-41, 70 L.Ed. 162 (1925)). "Any departure from this judicial restraint would result in courts deciding on what is and is not a governmental function and in their invalidating legislation on the basis of their view on that question at the moment of decision, a practice which has proved impracticable in other fields." *United States ex rel. TY.A. v. Welch,* 327 U.S. 546, 552, 66 S.Ct. 715, 718,

90 L.Ed. 843 (1946). Additionally, in *Midkiff* the Court noted that whether the statute actually succeeds is irrelevant.

> But "whether in *fact* the provision will accomplish its objectives is not the question: the [constitutional requirement] is satisfied if . . . the . . . [state] Legislature *rationally could have believed* that the [Act] would promote its objective." When the legislature's purpose is legitimate and its means are not irrational, our cases make clear that empirical debates over the wisdom of takings . . . are not to be carried out in the federal courts.

Midkiff, 467 U.S. at 242-43, 104 S.Ct. at 2330 (brackets in original) (quoting *Western & Southern Life Ins. Co. v. State Bd. of Equalization,* 451 U.S. 648, 671-72, 101 S.Ct. 2070, 2084-85, 68 L.Ed.2d 514 (1981)) (internal citations omitted).

Under the rational basis test, we hold that the Ordinance is constitutional under both the United States and Hawaii constitutions. Regardless of what has occurred with single-family dwellings, the City rationally could have believed that, if the supply of condominiums increased (through the lease-to-fee measure of Ordinance 91-95), the price of those condominiums would decrease. Additionally, although the price of single-family houses increased dramatically between 1987 and 1990, there is no indication that the price would not have gone up even more without the Act's lease-to-fee mechanism. Finally, even if the price of condominiums does not decrease as a result of the Ordinance, some of the public purposes of the Ordinance will be served. If a family is allowed to purchase its condominium, that family will not risk being thrown out of its home in 25 years because the family cannot afford the renegotiated rent. The City rationally could have concluded that the lease-to-fee mechanism would remedy defects in the housing market and stabilize Oahu's economy.

C. THE JUST COMPENSATION CLAUSE

When a government uses its powers of eminent domain to condemn property, it must provide the property owner with "just compensation." U.S. Const. amend V.; *accord* Haw. Const. art. I, § 20. Just compensation is the "full -monetary equivalent of the property taken." *United States v. Reynolds,* 397 U.S. 14, 16, 90 S.Ct. 803, 805, 25 L.Ed.2d 12 (1970).

The landowners argue that Ordinance 91-95 does not fully compensate them for the taking of their property. In particular, they argue that the Ordinance fails to provide compensation for their loss of rental income or for the diminution in the value of their remaining fee simple interest in any land that is involuntarily converted from their sole ownership to a cotenancy under the ordinance.[6] Both district courts dismissed these claims as unripe. *Richardson,* 802 F.Supp. at 341; *Small Landowners,* 832 F.Supp. at 1411.

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[6] Under the Ordinance, the Department has the option of condemning only a portion of the fee simple title under a condominium project (such as where some of the condominium lessors do not wish to purchase the fee simple title). In such a situation, the original land owner will share the fee simple title to the land with each condominium purchaser as a covenant.

Ripeness is a question of law reviewed *de novo*. *Carson Harbor Village Ltd. v. City of Carson,* 37 F.3d 468, 474 (9th Cir.1994). "If a claim is unripe, federal courts lack subject matter jurisdiction and the complaint must be dismissed." *Southern Pac. Transp. Co. v. City of Los Angeles,* 922 F.2d 498, 502 (9th Cir.1990). Whether a claim is ripe generally turns on the fitness of the issues for judicial decision and the hardship to the parties of withholding court consideration. *Pacific Gas & Elec. Co. v. State Energy Resources Conserv. & Devel. Comm'n,* 461 U.S. 190, 201, 103 S.Ct. 1713, 1720, 75 L.Ed.2d 752 (1983). The "central concern [of the ripeness inquiry] is whether the case involves uncertain or contingent future events that may not occur as anticipated, or indeed may not occur at all." 13A Charles Alan Wright, Arthur R. Miller & Edward H. Cooper, Federal Practice and Procedure § 3532 at 112 (2d ed. 1984).

Here, the Bishop Estate came to federal court the same day the City enacted the Ordinance. The condemnation procedure at issue is not self-executing. Rather, several events must occur before any taking will occur. First, at least 25 condominium owners or the owners of 50% of the units, whichever is less, must file an application with the Department to trigger the Ordinance's procedures. Then, after "[d]ue notice is given and a public hearing held," the Department must determine whether the "exercise of the power of eminent domain" requested by the applicants "will effectuate the public purposes of [the Ordinance]." Honolulu City & County, Haw. Ordinance 91-95 § 2.2 (a) (2). The Ordinance also requires that, before the Department exercises its power of eminent domain, that the lessor and lessees negotiate "the just compensation which" will be paid. Honolulu City & County, Haw. Ordinance 91-95 § 4.6. Only then will the Department set forth to condemn property.

At this juncture, no group of tenants has asked the Department to invoke the condemnation procedures created by the Ordinance. It is possible that any one of the conditions precedent to the exercise of the Department's eminent domain power might not occur. A sufficient number of qualifying tenants, *see* Honolulu City & County, Haw. Ordinance § 4.4 (setting forth seven requirements that lessee must meet before a sale takes place), might not file an application with the Department. The Department might conclude in any given case that exercising its power of eminent domain would not further the public purpose of the Ordinance. In any event, the required preliminary negotiations could result in an agreement as to the appropriate compensation. Because any one of these contingent events might not occur, we conclude that the landowners' claim under the Just Compensation clause is not ripe for federal adjudication.

The Supreme Court's clear guidance regarding application of the ripeness doctrine to takings claims reinforces our conclusion that the landowners' claim is not ripe. The Court has "placed two hurdles in the way of a takings claim brought in federal court against states and their political subdivisions." *Levald, Inc. v. City of Palm Desert,* 998 F.2d 680, 686 (9th Cir.1993) (internal quotation omitted). It is the second of these two hurdles, which requires that plaintiffs "seek compensation through the procedures the State has provided for doing so before turning to the federal courts," *id.* (internal quotation omitted), that has not been met here. Because no property has been targeted for taking, the landowners have not sought and been denied condemnation by the Department. Moreover, the landowners have not invoked the processes provided by Hawaii's courts for obtaining just compensation.

The landowners argue and the dissent concludes, however, that their claims are ripe because the Ordinance's plain language fails to provide for full compensation. Requiring the landowners to seek compensation through Hawaii's procedures, they argue, would be futile under existing state law. *See id.* at 686. The landowners burden of showing that complying with the state's procedures would be futile is a heavy one. *American Savings & Loan Ass'n v. County of Marin,* 653 F.2d 364, 371 (9th Cir. 1981). We conclude that the landowners have not carried their burden.

The Ordinance provides that "[t]he compensation to be paid . . . shall be the current fair market value of the leased fee interest." Honolulu City & County, Haw. Ordinance § 1.2. It defines "leased fee interest" as the "reversionary interests of the fee owner . . . other than the lessee's or sublessee's interest." *Id.* The dissent argues that the plain meaning of the Ordinance deprives the landowners of compensation for the lost stream of rental payments and, therefore, "unless the Ordinance means something other than "what it very clearly says, it does not authorize the Department to give landowners just compensation." *Dissenting Opinion* at 1170. We disagree.

The Ordinance speaks of "reversionary interests" as being in the plural. This points to a recognition of multiple factors to be included in the valuation. The Fifth Circuit has stated that a "reversionary interest is *any* future interest left in a transferor or his successor in interest." *United States v. 50.822 Acres of Land, More or Less,* 950 F.2d 1165, 1169 n. 4 (5th Cir.1992) (internal quotation omitted) (emphasis added). The Department could well interpret the "reversionary interests" of the fee owner as his entire interest in the land under the condominiums as of the date the eminent domain action is commenced.

Basic principles of property law, in fact, practically compel that interpretation. The reversionary interest of a lessor, as the dissent notes, is "[t]he property that reverts to the grantor after the expiration of an intervening income interest." *Blacks Law Dictionary* 1186 (5th ed. 1979). In other words, a reversionary interest is "[a] right to the future enjoyment of property, at present in possession or occupation of another." *Id.* The Ordinance thus directs the Department to pay the fair market value of the property which reverts to the lessor at the expiration of the lease. What reverts to the lessor is a fee interest in the ground underneath the condominium. The projected earning of that property would be a normal factor in determining the value of the property that reverts to the lessor. *See* Ordinance 91-95 at § 1.2 (defining fair market value as the price to which a willing buyer and seller taking into consideration "all uses to which the land is adapted or might in reason be applied").

We hold that the landowners' challenge is not ripe. There are obviously many different ways the Department could approach the valuation of the lessors' reversionary interest. The Department has not issued regulations regarding the compensation of the landowners and there is no basis for determining that the landowners will not be fully compensated for their interests. It is apparent that the "plain meaning" of the Ordinance does not foreclose the payment of constitutionally adequate compensation for the landowners' "reversionary interests." Moreover, the City's intent. to pay the current fair market value of the leased fee interest is clear. The Ordinance anticipates a complete valuation of the lessors' property interests. It is only if the definition of "leased fee interest" is given a restricted meaning that the landowners would not receive constitutionally adequate

compensation. Until that happens, federal adjudication of the landowners' just compensation claim is premature.

D. THE DUE PROCESS CLAUSE

The Due Process Clause of the Fourteenth Amendment provides that no State shall "deprive any person of life, liberty, or property, without due process of law." U.S. Const. amend. XIV; accord Haw. Const. art I, § 5. The Due Process clause confers both procedural and substantive rights. *United States v. Salerno,* 481 U.S. 739, 746, 107 S.Ct. 2095, 2101, 95 L.Ed.2d 697 (1987); *Armendariz v. Penman,* 75 F.3d 1311, 1318 (9th Cir.1996) (en banc). A municipal act that neither utilizes a suspect classification nor draws distinctions among individuals that implicate fundamental rights will violate substantive due process rights when it is shown that the action is not "rationally related to a legitimate governmental purpose." *Munoz v. Sullivan,* 930 F.2d 1400, 1404 (9th Cir. 1991). We will strike down a statute on substantive due process grounds if it is arbitrary and irrational. *Del Monte Dunes v. City of Monterey,* 920 F.2d 1496, 1508 (9th Cir. 1990).

The landowners again argue that the Ordinance is arbitrary and irrational because it has no legitimate public purpose, because lease-to-fee statutes have been proved not to work, and because the Ordinance is not rationally related to achieving, a valid objective.

The challengers' burden to show that a statute is arbitrary- and irrational is extremely high. *See Del Monte Dunes,* 920 F.2d at 1508. "In a substantive due process challenge, we do not require that the City's legislative acts actually advance is stated purposes, but instead look to whether 'the governmental body could have had no legitimate reason for its decision.'" *Kawaoka v. City of Arroyo Grande*, 17 F.3d 1227, 1234 (9th Cir.1994) (quoting *Levald, Inc.*, 998 F.2d at 690). As explained above, *see supra* section II(B) (2), the City has expressed a valid public purpose in attempting to control condominium price inflation. Furthermore, the City's decision to utilize a lease-to-fee ordinance to effectuate this purpose is not irrational. *See supra* section II(B) (3). Accordingly, we hold that the landowners cannot meet the burden of showing irrationality.

E. THE EQUAL PROTECTION CLAUSE

The United States Constitution guarantees that "[n]o State shall . . . deny to any person within its jurisdiction the equal protection of the laws." U.S. Const. Amend XIV; *accord* Haw. Const. art. I, § 5. The Bishop Estate and the Small Landowners assert that Ordinance 91-95 violates the Equal Protection Clause in two ways. First, the Bishop Estate alleges that ordinance 91-95 was enacted to favor non-Hawaiian lessees over Native Hawaiians and Native Hawaiian Trusts in violation of their equal protection rights. The Small Landowners additionally allege that the Ordinance violates their equal protection rights by "irrationally grouping together all condominium landowners without any factual or legal basis for inclusion of small landowners."

1. Native Hawaiians' equal protection claims

The Ordinance applies to condominiums regardless of whether the owner is Native Hawaiian or non-Hawaiian. It thus does not on its face draw a distinction on the basis of a suspect classification. Nonetheless, the landowners assert that the Ordinance is

unconstitutional due to its discriminatory effects. To prevail, however, the Bishop Estate must show not only a discriminatory effect, but also discriminatory intent. *Village of Arlington Heights v. Metropolitan Housing Dev. Co.*, 429 U.S. 252 265, 97 S.Ct. 555, 563, 50 L.Ed.2d 450, (1977).

The Bishop Estate introduced no evidence of discriminatory intent on the part of the City. Instead, the Estate alleged that the City must have known that it and other Native Hawaiians owned numerous interests in leased condominiums and therefore that the City was aware the Ordinance would severely affect the Bishop Estate Trust and would harm the interests of Native Hawaiians. We agree with Judge Ezra that these allegations, even if true, do not present a prima facie case of discrimination. It is not enough to show that the City knew the law would affect Native Hawaiians. "Discriminatory purpose . . . implies more than an awareness of consequences." *Personnel Adm'r v. Feeney,* 442 U.S. 256, 279, 99 S.Ct. 2282, 2296. 60 L.Ed.2d 87/0 (1979). Because the landowners offered no other evidence of discriminatory intent, summary judgment on their equal protection claim was appropriate.

2. Small Landowners' equal protection claim

The Small Landowners contend that the Ordinance violates their equal protection rights by grouping small landowners with owners such as the Bishop Estate, which owns many condominium projects. We disagree.

The Small Landowners do not contend they constitute a suspect class; hence, we will uphold the Ordinance if it is rationally related to a legitimate state interest. *See Massachusetts Bd. of Retirement v. Murgia,* 427 U.S. 307, 312, 96 S.Ct. 2562, 2566, 49 L.Ed.2d 520 (1976). As explained above, the Ordinance furthers a legitimate state interest. See supra section II(B)(2). The Ordinance is rationally related to that interest. *See supra* section II(B)(3). Thus we hold Ordinance 91-95 does not violate the Small Landowners' equal protection rights.

III. ORDINANCE 91-96

A. THE ORDINANCE

As noted above, the land underneath condominiums on Oahu ordinarily is owned by someone other than the owner of the condominium. The condominium owner leases the ground under the condominium, ordinarily for very long terms. In the typical lease, the rent initially is fixed for a term of years, after which the rent is subject to renegotiation. The renegotiated rent is normally a percentage of the fair market value of the land appurtenant to the unit exclusive of improvements, as of the date of renegotiation. The rapid rise in Hawaiian land prices often results in renegotiated rent several hundred times greater than the initial fixed rent.

Ordinance 91-96 was enacted at the same time as Ordinance 91-95 and essentially is a rent control 'ordinance. The Ordinance accomplishes its goal in two ways. First, the Ordinance, which applies to all leases that contain provisions for renegotiation of lease rents for owner-occupied condominiums, limits the number and regulates the timing of renegotiations. Section 1.4 of the Ordinance provides that the first renegotiation shall not

occur within fifteen years of the initial date of the lease, while subsequent renegotiations shall occur no sooner than every ten years.

Second, the Ordinance caps rents by linking the maximum renegotiated rent to the consumer price index. Section 1.5(b) of the Ordinance limits the renegotiated rent to the initial rent multiplied by a rent factor. The initial rent is the greater of the rent specified by the lease and the reasonable rental value on the effective date of the lease. Honolulu City and County, Haw. Ordinance 91-96. § 1. 1. The rent factor is the average consumer price index for the six-month period in which the rent renegotiation divided by the average consumer price index on the date of the initial lease. *Id.* § 1. 5 (b) (1)-(2).

The Ordinance also contemplates the conveyance of condominiums subject to renegotiated leases on the underlying land. Section 1.10 of the Ordinance facilitates the conveyance or transfer of these renegotiated leases. That section provides that, if an owner-occupant of a condominium conveys or transfers the leasehold interest in the underlying land during a renegotiated rent period to a person who intends to occupy the condominium apartment, the renegotiated land rent shall apply to the transferee tenant. *Id.* § 1.10. In other words, the owner-occupant of a condominium is free to convey his or her leasehold interest in the underlying land to a person intending to occupy the condominium and the transferee will receive the benefit of the renegotiated land lease. However, if the condominium is conveyed to someone who is not an owner-occupant, the lessor of the underlying land may reopen the negotiation. *Id.* § 1. 13.

The Bishop Estate moved for summary judgment, contending that Ordinance 91-96 violates the Takings, Contract and Due Process Clauses. The district court ruled, at summary judgment, that the Ordinance violates the Takings Clause. The district court did not reach the Bishop Estate's Contract and Due Process Clause arguments.

The City and the HALE coalition each filed a timely notice of appeal.

B. THE TAKINGS CLAUSE

The Bishop Estate argues that Ordinance 91-96 violates the Takings Clause in two ways. First, the Estate contends that Ordinance 91-96 fails to substantially further its stated public purposes and, therefore, constitutes a regulatory taking because the Ordinance allows a lessee to monetize a below-market renegotiated rent at the expense of the lessor. Second, the Bishop Estate asserts that the Ordinance violates the Fifth Amendment because it fails to provide for consideration of individualized factors that -might affect the value of the lease at the time of renegotiation. The City and HALE coalition argue that individualized consideration is not necessary and the alleged ground lease premium does not render the Ordinance unconstitutional. We turn to the Bishop Estate's argument that the Ordinance fails to substantially further a legitimate state interest.

A land use regulation, as noted above, does not effect a taking if it substantially furthers a legitimate state interest and does not deny the landowner economically viable use of his land. *Dolan,* 512 U.S. at 385, 114 S.Ct. at 2316-17. Ordinance 91-96 is designed to further the City's interest in maintaining affordable owner-occupied residential housing. Honolulu City & County, Haw. Ordinance 91-96, § 1. The Bishop Estate does not maintain that this is not a legitimate state interest, but rather asserts that the Ordinance fails to substantially further that interest. The Bishop Estate cites

Yee v. City of Escondido, 503 U.S. 519, 112 S.Ct. 1522, 118 L.Ed.2d 153 (1992) in support of its argument.

Yee involved a rent control ordinance enacted by the City of Escondido that capped the rent a mobile home park owner could charge his lessees. *Yee,* 503 U.S. at 524, 112 S.Ct. at 1526-27. The Yees, owners of two mobile home parks, brought suit alleging that the rent control ordinance violated the Takings Clause. *Id.* at 525, 112 S.Ct. at 1527. They offered two arguments in support of their contention: (1) the rent control ordinance effected a physical taking of their property; and (2) the ordinance effected a regulatory taking of their property.

The Court did not reach the regulatory taking issue because that question was "not fairly included in the question on which we granted certiorari." *Id.* at 533, 112 S.Ct. at 1531. With respect to their physical taking argument, the Yees relied "heavily on their allegation that the ordinance benefits incumbent mobile home owners without benefiting future mobile home owners, who will be forced to purchase mobile homes at premiums." *Id.* at 530, 112 S.Ct. at 1529. The Court pointed out that this premium effect distinguished the Escondido ordinance from ordinary rent control statutes. Apartment tenants do not sell anything to their successors and, quite often, are statutorily precluded from charging "key money." *Id.* The ordinary rent control ordinance does not allow the lessee to monetize the present value of the reduced rent by conveying an apartment subject to a lease with a below market rent. Although the Court ultimately rejected the Yees' argument because "it has nothing to do with whether the ordinance causes a physical taking," *id.*, it noted that "-[t]his effect might have some bearing on whether the ordinance causes a regulatory taking, as it may shed some light on whether there is a sufficient nexus between the effect of the ordinance and the objectives it is supposed to advance." *Id.* (citing *Nollan,* 483 U.S. at 834-35, 107 S.Ct. at 3147-48).

The Bishop Estate makes a similar challenge to Ordinance 91-96. It contends that the Ordinance's conveyance provisions create a premium, which an owner-occupant can capture when she sells a condominium subject to a renegotiated land rent. If the transferee intends to occupy the condominium, she receives the benefit of the renegotiated rent. Hence, the transferor will charge a premium reflecting the net present value of the difference between the renegotiated land rent and the free market land rent.

The district court found that the Ordinance allowed a lessee to capture the present value of the below market land rent. *Richardson II,* 802 F.Supp. at 338. The Ordinance's failure to regulate resales, according to the district court, effected a transfer of wealth from lessors to lessees. *Id.* Because of this transfer of wealth, which generally does not occur in the ordinary rent control ordinance, the court held that the Ordinance is unconstitutional. While we agree that the Ordinance effects a regulatory taking and, therefore is unconstitutional, we do so for somewhat different reasons than the district court.

The City enacted the Ordinance to provide renegotiated land lease rents "which are affordable to condominium apartment owner-occupants and fair to lessors" and to "maintain [affordable housing] for owner-occupants." The conveyance provision, as explained above, vitiates the cause-and-effect relationship between the property use restricted (rent rates) and the social evil the Ordinance seeks to remedy (lack of affordable housing). Despite this, the City and the Hale Coalition assert that it does not effect an

unconstitutional regulatory taking. They assert that all land use regulations increase the value of some property while decreasing the value of other property.

Initially, we must determine whether the Bishop Estate's takings claim is ripe. "There are two independent prudential hurdles to a regulatory taking claim brought . . . in federal court." *Suitum v. Tahoe Regional Planning Agency,* ____ U.S. ____, ____, 117 S.Ct. 1659, 1664, 137 L.Ed.2d 980 (1997). The first hurdle, that the plaintiff obtain a final decision regarding the application of the regulation to the property at issue from the entity charged with implementing the regulation, *id.* at ____, 117 S.Ct. at 1665, does not apply to facial regulatory takings claims. *Levald,* 998 F.2d at 686. Twice before we have characterized premium based challenges to a rent control statute as facial challenges. *See Carson Harbor,* 37 F.3d at 474 n. 5 ("In *Levald,* which involved similar facts, we noted that the premium is 'relevant only to a facial, not an as-applied, regulatory challenge.'"). The first hurdle thus does not apply to the Bishop Estate's argument.

"The second hurdle stems from the Fifth Amendment's proviso that only takings without 'just compensation' infringe that Amendment; 'if a State provides adequate procedure for seeking just compensation, the property owner cannot claim a violation of the Just Compensation clause until it has used the procedure and been denied just compensation.'" *Suitum,* ____ U.S. at ____, 117 S.Ct. at 1665 (quoting Williamson *County,* 473 U.S. at 195, 105 S.Ct. at 3121 (1985)). Because the Bishop Estate's argument that the Ordinance does not substantially further a legitimate state interest does not depend upon the extent to which the Estate is compensated, its facial regulatory taking claim is ripe. *See Yee,* 503 U.S. at 534, 112 S.Ct. at 1532 ("As this [premium argument] does not depend on the extent to which petitioners are deprived of the economic use of their particular pieces of property or the extent to which these particular petitioners are compensated, petitioners' facial challenge is ripe."). We therefore turn to the merits of the Bishop Estate's argument.

Land use regulations do influence the value of property, but to be constitutional, they must do so in a manner that substantially furthers a legitimate government interest. *Nollan,* 483 U.S. at 834, 107 S.Ct. at 3147. Ordinance 91-96 does not do this. It regulates the use of the lessors' property interests in a manner that does not substantially further the goal of creating affordable housing. The absence of a mechanism that prevents lessees from capturing the net present value of the reduced land rent in the form of a premium, means that the Ordinance will not substantially further its goal of creating affordable owner-occupied housing in Honolulu. Incumbent owner occupants who sell to those who intend to occupy the apartment will charge a premium for the benefit of living in a rent controlled condominium. The price of housing ultimately will remain the same. The Ordinance thus effects a regulatory taking. *See id.* (regulation must substantially advance a legitimate state interest); *see* also, *Pennell v. San Jose,* 485 U.S. 1, 20, 108 S.Ct. 849, 862, 99 L.Ed.2d 1 (1988)

("Traditional land-use regulation (short of that which totally destroys the economic value of property) does not violate the principle that one should not be forced to bear a burden which belongs to the public as a whole] because there is a cause-and-effect relationship between the property use restricted by the regulation and the social evil that,

the regulation seeks to remedy.") (Scalia, J., concurring). We accordingly hold that Ordinance 91-96 violates the Fifth Amendment to the Constitution of the United States.[7]

IV. CONCLUSION

In summary, we hold that Ordinance 91-95 (the lease to fee ordinance) is constitutional. The Ordinance admittedly takes private property, but it does so for a sufficiently public purpose and no constitutional deprivation has as yet been established. Ordinance 91-96 (the rent control ordinance), on the other hand, is unconstitutional because it to substantially further a legitimate governmental interest. The respective judgments of the district courts are therefore

AFFIRMED.

C'SCANNLAIN, Circuit Judge, concurring in part and dissenting in part.

I join the court's opinion regarding the constitutionality of Ordinance 91-96. With respect to Ordinance 91-95, 1 concur in the court's conclusion in Part II-B that there is no violation of the Public Use Clause, but write separately to express concern about *Hawaii Housing Authority v. Midkiff,* 467 U.S. 229, 104 S.Ct. 2321, 81 L.Ed.2d 186 (1984). I respectfully dissent from Part II-C, however, because I believe that the challenge to Ordinance 91-95's compensation provision is ripe, and that the provision does not provide just compensation.

I

In Part II-B the court concludes that Ordinance 91-95 does not violate the Public Use Clause and relies heavily on *Hawaii Housing Authority v. Midkiff.*

A

The Fifth Amendment to the Constitution states: ". . . nor shall private property be taken for public use without just compensation." U.S. Const., amend V. The Public Use Clause is an explicit limit on the power of the government to take private property for, as the Supreme Court has long recognized, a taking must be for public use; a taking for a purely private use is unconstitutional. *See Thompson v. Consolidated Gas Corp.,* 300 U.S. 55, 80, 57 S.Ct. 364, 376, 81 L.Ed. 510 (1937).

Notwithstanding this principle, however, the Supreme Court in *Midkiff* gave the Public Use Clause an exceedingly broad reading: to satisfy the Clause, a taking need only be "rationally related to a conceivable public purpose." *Midkiff,* 467 U.S. at 241, 104

[7] In light of our conclusion that Ordinance 91-96 fails to substantially further a legitimate state interest, we need not reach either the Bishop Estates argument that it fails to provide for consideration of the characteristics of individual lessors or its other arguments.

S.Ct. at 2329. "The 'public use' requirement is thus coterminous with the scope of a sovereign's police powers." *Id* at 240, 104 S.Ct. at 2329; *Nat'l R.R. Passenger Corp. v. Boston & Maine Corp.*, 503 U.S. 407, 422-24, 112 S.Ct. 1394, 1404-05, 118 L.Ed.2d 52 (1992).

Since *Midkiff* was decided, however, the Supreme Court's regulatory takings jurisprudence has undergone considerable change. *See Dolan v. City of Tigard*, 512 U.S. 374, 114 S.Ct. 2309, 129 L.Ed.2d 304 (1994); *Lucas v. South Carolina Coastal Council*, 505 U.S. 1003, 112 S.Ct. 2886, 120 L.Ed.2d 798 (1992); *Nollan v. California Coastal Comm'n*, 483 U.S. 825, 107 S.Ct. 3141, 97 L.Ed.2d 677 (1987). *Nollan, Lucas,* and *Dolan,* of course, dealt with a different area of takings jurisprudence, subject to a different set of rules than the one before us: here we have a challenge under the Public Use Clause whereas that trio dealt with regulatory takings.

Notwithstanding that the *Nollan-Lucas-Dolan* trio dealt with a different part of the Takings Clause, the landowners argue that these cases have modified *Midkiff's* deferential review of a legislature's public use determination. The court rejects this argument, and I agree: the *Nollan-Lucas-Dolan* trio does not expressly modify or overrule *Midkiff,* and therefore we must apply *Midkiff* in this case. Indeed, recent Ninth Circuit authority confirms that *Midkiff* is still viable. *See Bay View, Inc. v. AHTNA, Inc.*, 105 F.3d 1281, 1286 (9th Cir.1997) ("After [*Midkiff*], a legislative determination of what constitutes 'public use' is subject to 'an extremely narrow' review, and will be upheld so long as it's rational."). *Midkiff's* deferential standard compels me to conclude that Ordinance 91-95's taking serves a "conceivable public purpose."

B

Although *Midkiff* has not been overruled, and although *Nollan, Lucas,* and *Dolan* deal with a different part of the Takings Clause, I nevertheless believe that there is tension between these two lines of authority. The underlying thrust of the *Nollan-Lucas-Dolan* decisions--increasing the scrutiny of regulations to determine if they go "too far" (enough to require compensation)--is inconsistent with *Midkiff's* sweeping deference. It may be time for the Supreme Court to reconsider *Midkiff.*

To provide the context for this observation, I must take a brief detour. It seems to me that, speaking in broad terms, there are three ways the government can exercise control over property, especially real property. First, it can regulate pursuant to its broad police powers. Second, it can use its power of eminent domain to take the property without the consent of the owner as long as it pays just compensation. Third, it can buy land from a voluntary seller after negotiating a price-that is, it can use its revenues to behave like any other arm's length purchaser of private property. *See* Thomas W. Merrill, *The Economics of Public Use,* 72 Cornell L.Rev. 61, 72 (1986).

Nollan, Lucas, and *Dolan* dealt with the relationship between the first two categories. *Lucas* established when a government regulation goes too far. *See Lucas,* 505 U.S. at 1030, 112 S.Ct. at 2901 ("When . . . a regulation that declares "off-limits" all economically productive or beneficial uses of land goes beyond what the relevant background principle would dictate, compensation must be paid to sustain it."). *Nollan* and

Dolan tightened the required fit between the legitimate purpose sought to be accomplished by a government regulation and the means chosen-thereby identifying some exercises of the police power as takings. A police power regulation will be treated as a taking-an exercise of eminent domain-requiring compensation unless it adequately fits its purposes; that is, unless there is an "essential nexus" between a legitimate state interest and the regulation. *See Dolan*, 512 U.S. at 385-87, 114 S.Ct. at 2317; *Nollan,* 483 U.S. at 837, 107 S.Ct. at 3148-49.

The *Nollan-Lucas-Dolan* trio therefore established that the Takings Clause is a limitation upon the state's police powers; if a regulation goes too far, or does not have the right fit. then it must be treated as an exercise of eminent domain-a taking-which requires compensation. The Public Use Clause appears to serve the same sort of function, but with respect to the second and third categories--it limits the state's power of eminent domain. If an exercise of eminent domain goes too far-if it is for a private purpose, not a public one-then it cannot stand. If the state wants to acquire property in such circumstances (and has the statutory authority to do so), it may negotiate with the landowner to purchase the property at an agreed price, but it may not use its condemnation power.[8]

Because the *Nollan-Lucas-Dolan* trio increased the level of scrutiny given to police power regulations, identifying some of them as takings, it stands to reason that the same increased scrutiny should be given to outright condemnation. If a taking does not have the required fit-perhaps something like *Nollan's* "essential nexus"-between its proclaimed public use and its actual effect, then it should be invalid under the Public Use Clause.

The court's opinion seeks to distinguish these cases, but I am unpersuaded. To the majority, the distinction is the provision of compensation: "[W]e see nothing inconsistent in applying heightened scrutiny when the taking is uncompensated, and a more deferential standard when the taking is fully compensated." Whereas the majority is correct that there is less reason to be suspicious of a fully compensated taking than an uncompensated one, more deference does not imply absolute deference. We ought not vitiate the public use requirement because, even if a landlord does receive the "fair market value" of the property, the landlord loses his right to exclude. Whether because of a sentimental attachment to his property or a conviction that the property is actually worth more than what the market will currently bear, a landlord might choose not to sell, even at the "fair market value." The landlord who refuses to sell is asserting his right to exclude. As the *Dolan* Court recognized, "th[e] right to exclude others is 'one of the most essential sticks in the bundle of rights that are commonly characterized as property.'" *Dolan,* 512 U.S. at 393, 114 S.Ct. at 2320 (quoting *Kaiser Aetna v. United States,* 444 U.S. 164, 176, 100 S.Ct. 383, 391, 62 L.Ed.2d 332 (1979)). The public use requirement protects this right by limiting government encroachment on private property-by forcing the government to prove that it is upholding the public welfare and not merely transferring wealth to a class of persons with a stronger political voice.

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[8] This is not to say that the Public Use Clause prohibits the government from possessing property for a non-public use; if the government with the statutory power to do so purchases the property from a voluntary seller, there is no taking at all because there is no use of eminent domain. The government becomes the owner with the consent of the seller.

Therein lies the mischief of *Midkiff*. Hopefully the Supreme Court will have the opportunity to extend its emerging takings jurisprudence to protect the right to exclude and to add vitality to the public use requirement. If the Clause is to have any effect at all, it must mean that a court will not feign blindness when it sees through a patently transparent legislative recital that a taking is for a public use. When the government uses eminent domain to take real property from A and give it to B, with no meaningful impact on anyone else or on the community at large, the taking is purely private and should violate the Public Use Clause.

In my view, Ordinance 91-95, unlike the statute in *Midkiff*, is a purely private taking. In *Midkiff*, the legislature was attempting to break up an oligopoly in land ownership remnant of Hawaii's feudal past--to allow single family home ownership. Breaking apart large blocks of land held by a small group of landowners--blocks which encompassed almost half the entire State of Hawaii could be reasonably expected to spark more land transactions and lead to a more fluid real estate market. *See Midkiff*, 467 U.S. at 232-33, 104 S.Ct. at 2324-25. That some economists might disagree with the legislature's remedy does not mean that the statute would be invalid--it retained an "essential nexus" to its purpose and would be constitutional.

In this case, however, the Honolulu City Council found no land oligopoly, but a mere concentration of land ownership in the hands of landowners (a tautology), many of whom refused to sell their land to their leasehold tenants (typically groups of high-rise condominium owners), which in turn led to increased real property prices. As a remedy, when properly triggered, Ordinance 91-95 would condemn the property of the landowners and transfer it in pro rata shares to the condominium owners. It seems to me that the ordinance is nothing more than a naked transfer from one property owner to another from landlords to tenants. To be sure, because tenants will be able to own land that they could not purchase in the open market, the ordinance might well make today's tenants better off, and will certainly eliminate their need to pay rent altogether. But transferring title to the tenants will not change the value of the property—which will still equal the combined value of the leasehold interest and the reversionary interest and hence should not lower the price a seller will demand. If the landlords constituted an oligopoly, then the division of the ownership of the land could have the effect of lowering land prices from an oligopolistic level to something approaching the free-market level. In the absence of a showing of an oligopoly, however, Ordinance 91-95 has nothing to do with changing the structure of Hawaii's real estate market.

Nevertheless, *Midkiff*'s language limits the public use inquiry to whether there is a conceivable public purpose behind the law. Applying that deferential standard, I conclude that Ordinance 91-95 barely passes muster, and therefore I reluctantly concur in the court's conclusion that it does not violate the Public Use Clause.

II

In Part II-C of its opinion, the court concludes that the landowners' compensation claims are not ripe. It does so -while theoretically recognizing the well-established rule that a party need not seek compensation when doing so would be

futile under existing state law. *See Levald, Inc. v. City of Palm Desert,* 998 F.2d 680, 686 (9th Cir. 1993); *see also Williamson County Regional Planning Comm'n v. Hamilton Bank,* 473 U.S. 172, 196-97, 105 S.Ct. 3108, 3121-22, 87 L.Ed.2d 126 (1985).

Ordinance 91-95 sets the compensation for the taking as "the current fair market value of the leased fee interest." Ordinance 91-95, § 5.3. It defines the "leased fee interest" as the "reversionary interests of the fee owner." *Id.* at § 1.2.

By its plain meaning, the ordinance pays only the current fair market value of the landowner's reversionary interest. In other words, the landowner gets paid only for his interest in the property which excludes the leasehold. Conspicuously absent from this formula is any payment for the current stream of rental payments from the tenants to the landlord. Undoubtedly, the landlord has a protected property interest in the rental payments-a lessor's interest distinct from the reversionary interest in the land. Currently, the tenants pay rent to the landlord for the lease term. Under the ordinance, the tenants stop paying rent immediately upon condemnation. The landlord loses the stream of payments for the leasehold period but is not compensated for the loss.

In the court's view, Honolulu's Department of Housing and Community Development could interpret the compensation provision broadly and include the lost rental payments in the compensation formula. I do not think a fair (or even generous) reading of the ordinance will sustain that conclusion. The ordinance is clear: the landowners will get paid only for their "reversionary interests," which, as a matter of basic property law, do not include the current income from the property. *See Black's Law Dictionary* 1186 (5th ed. 1979) (defining "reversionary interest" as "[t]he property that reverts to the grantor after the expiration of an intervening income interest"). The Supreme Court has recognized that merely compensating a lessor for the reversionary interest is insufficient:

> "[W]hen a lease of trust land is made. . . . upon a subsequent condemnation by the United States, the trust must receive the then full value of the reversionary interest that is subject to the outstanding lease, *plus, of course, the value of the rental rights under the lease."*

Alamo Land & Cattle Co., Inc. v. Arizona, 424 U.S. 295, 303, 96 S.Ct. 910, 916, 47 L.Ed.2d 1 (1976) (emphasis added). The landlord must receive the value of the leased payments because that is the difference between what is taken by the government (a present fee simple) and the fair market of the "reversionary interests."

The court reaches the incorrect result because its analysis is incomplete. After noting that what reverts back to the landlord is a fee interest, the court states that "[t]he projected earning of that property would be a normal factor in determining the value of the property that reverts to the lessor." The court is correct in that what reverts back is a fee interest, and that the value of a fee interest takes into account all projected earnings. The court does not recognize, however, that a reversionary interest in fee simple is a lesser estate than a present fee simple, and that the difference is the interim lease payments. One can view the value of property as the sum of the discounted *future* cash flows. A reversionary interest is less valuable than a present fee simple because the value of a

reversionary interest does not include the rent payments made prior to reversion, as those would be *past* cash flows.

Thus, to provide just compensation, Hawaii must pay the landlords the value of the reversionary interest plus the present value of the lease payments. There is no need to wait and see how the Department administers Ordinance 91-95, for unless the ordinance means something other than what it very clearly says, it does not authorize the Department to give landowners just compensation. In light of the plain meaning of the ordinance, any compensation paid by Honolulu to the landowners would be constitutionally inadequate. The formality of pursuing such compensation would therefore be futile. For that reason, would conclude that the landowners' compensation claims are ripe for review, and that the district court's order should be reversed to that extent.

APPENDIX B

UNITED STATES DISTRICT COURT
D. HAWAII

Civ. No. 91-00725 DAE

WILLIAM S. RICHARDSON, *et al.*,
Plaintiffs,

V.

CITY AND COUNTY OF HONOLULU,
and Defendant,

HALE COALITION,
Intervenor.

Sept. 16, 1992

ORDER GRANTING IN PART AND DENYING IN PART MOTIONS FOR SUMMARY JUDGMENT AND CERTIFYING QUESTION TO HAWAII SUPREME COURT

DAVID ALAN EZRA, District Judge.

This court heard the parties' motions for summary judgment on August 10, 1992.

BACKGROUND

On December 4, 1991, the City Council of defendant City and County of Honolulu[1] passed Bills 156 (1990) and 36 (1991) which were later enacted on December 18, 1991 as Ordinances 91-95 and 91-96, respectively. Ordinance 91-95 involves a mechanism for the transfer of the fee simple interest of leasehold property from condominium lessors to condominium lessees in Honolulu. Ordinance 91-96 imposes a ceiling on renegotiated lease rents for ground leases of owner-occupied residential condominium units in Honolulu.

On December 18, 1991, the date of enactment of the aforementioned ordinances, the plaintiff Trustees of the Kamehameha Schools/Bernice Pauahi Bishop

[1] 'The court will refer to the City and County of Honolulu as "Honolulu" when discussing the geographical location and as "the City" when addressing the defendant political entity.

Estate ("Bishop Estate") filed the present action alleging that both ordinances are unconstitutional. Bishop Estate asserts, the following specific causes of action:

> Count I--Deprivation of constitutional rights in violation of 42 U.S.C. § 1983;
>
> Count II--Ordinance 91-96 is facially unconstitutional in that it eff6cts an impermissible taking in violation of the Fifth and Fourteenth Amendment;
>
> Count III--Ordinance 91-96 is facially unconstitutional. in that it violates Bishop Estate's substantive due process rights under the Fifth and Fourteenth Amendments;
>
> Count IV--Ordinance 91-96 is facially unconstitutional in that it violates Bishop Estate's procedural due process rights under the Fourteenth Amendment;
>
> Count V--Ordinance 91-96 is facially unconstitutional in that it violates Bishop Estate's equal protection rights under the Fourteenth Amendment;
>
> Count VI--Ordinance 91-96 unreasonably and substantially impairs Bishop Estate's contract rights in violation of Article I, Section 10 of the Constitution;
>
> Count VII--Ordinance 91-95 is facially unconstitutional in that it effects an impermissible taking in violation of the Fifth and Fourteenth Amendments;
>
> Count VIII-Ordinance 91-95 is facially unconstitutional in that it violates Bishop Estate's substantive due process rights under the Fifth and Fourteenth Amendments;
>
> Count IX--Ordinance 91-95 is facially unconstitutional in that it violates Bishop Estate's equal protection rights under the Fourteenth Amendment;
>
> Count X--Ordinance 91-96 violates several provisions of the Constitution of the State of Hawaii;
>
> Count XI--Ordinance 91-95 violates several provisions of the Constitution of the State of Hawaii;
>
> Count XII--Ordinance 91-96 conflicts with various statutes of the State of Hawaii; and
>
> Count XIII-Ordinance 91-95 conflicts with various statutes of the State of Hawaii.

Bishop Estate seeks declaratory relief as well as attorneys' fees, costs, and interest.

On February 14, 1992, Bishop Estate filed a motion for partial summary judgment on Counts I, II, III, VI, XII, and XIII. On June 8, 1992, the HALE Coalition filed a motion for partial summary judgment on the remaining counts of the complaint. On June 9, 1992, the City filed a cross motion for summary judgment on all counts.

DISCUSSION

I. ORDINANCE 91-96

A. BACKGROUND

Ordinance 91-96 imposes a ceiling on renegotiated lease rents for ground leases of owner-occupied residential condominium units in Honolulu. In the "Findings and Purpose" section of Ordinance 91-96, the City found that there were 25,203 owner-occupied condominium housing units in Honolulu in 1987. Ord. 91-96 § 1 (1) (A). The City further found that 16,291 of such units, or approximately 65% of the total, were on leased land.[2] *Id.* § 1 (1)(B). The City indicated that residential leaseholds have had, and continue to have, numerous undesirable socio-economic effects including: increases in lease rental negotiations of up to 1,000%; inequality of bargaining power favoring lessors; and increasing lease rentals forcing lessees to give up their leases and look for other accommodations. In sum, the City stated:

> The purpose of this Ordinance is to set maximum renegotiated lease rents which are affordable to condominium apartment owner-occupants and fair to lessors. This Ordinance is intended to be in conformance with *[Richardson I]*.[3]

Ordinance 91-96 applies to all leases that contain provisions for renegotiation of lease rents for individual residential owner-occupant apartments. Ord. 91-96 § 1.3. An "owner-occupant" is defined as an owner of a residential apartment who, on the date of renegotiation of the lease of the residential apartment, occupies the residential apartment as the owner's principal residence. *Id.* § 1.2(a). Pursuant to the ordinance, the first renegotiation shall not be scheduled before the fifteenth year following the initial date of the lease and subsequent renegotiations shall occur no more frequently than every ten years. *Id.* § 1. 4 (a) (1).

Ordinance 91-96 provides that the maximum annual renegotiated lease rent shall be the initial lease rent multiplied by a rent factor. *Id.* § 1.5(b). The "initial lease rent" is

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[2] The City indicated that it had no reason to believe that this data had changed appreciably since 1987. Ord. 91-96 § 1(2).

[3] In *Richardson v. City and County of Honolulu*, 759 F.Supp. 1477 (D.Haw.1991) *("Richardson I")*, this court declared unconstitutional Ordinance 91-96's predecessor, Ordinance 90-95. *Richardson* I is discussed at length later in this opinion.

the greater of the beginning lease rent specified in the lease or the reasonable market value rent prevailing at the effective date of the lease.[4] *Id.* § 1. 1. Furthermore, the "rent factor" is the average consumer price index ("CPI")[5] for the six-month period in which the rent negotiation occurs divided by the average CPI in effect at the time of the effective date of the initial lease rent. *Id.* § *1.5 (b).*

When a lease comes up for renegotiation, the lessor and lessee are encouraged to attempt to reach agreement as. to the renegotiated lease rent. *Id.* § 1.4(b). If the parties are unable to reach an agreement, however, they must proceed to arbitration. *Id.* If the lease at issue is subject to section 516D-12 of the Hawaii Revised Statutes, the arbitration shall proceed pursuant to chapter 516D. *Id.* Otherwise, the City Department of Housing and Community Development (the "Department") shall arbitrate the matter. *Id.* The Department is also charged with enforcing the provisions of Ordinance 91-96. *Id.* § 1. 14.

Ordinance 91-96 also provides a mechanism for adjusting the renegotiated lease rent biennially in order to account for further changes in the CPI. *Id.* § 1.6. Furthermore, under certain narrowly-defined circumstances, the ordinance allows for an administrative adjustment of annual renegotiated lease rent to an amount higher than the maximum annual renegotiated lease rent. *Id.* § 1.7. In general terms, a lessor may petition the Department for an administrative adjustment when the lessor pays the operating expenses from lease rent proceeds and the lessor's current net operating income is less than the lessor's net operating income in the last year of the fixed rent period. *Id.* § 1.7(c). When authorized, the lease rent shall be adjusted so that the net operating income, as adjusted for inflation measured by the CPI, stays the same as the net operating income in the last year of the fixed rent period. *Id.* § 1.7(b), (c). Either the lessor or lessee may appeal the Department's approval, or modification of a proposed adjusted lease rent. *Id.* § 1.7(g).

Every renegotiated lease rent, whether set by agreement or arbitration, must be submitted to the Department for certification that the rent is within the applicable maximum. *Id.* § 1.9. The renegotiated lease rent shall be deemed within the maximum unless, within thirty days of the submission of the renegotiated lease rent, the Department certifies that such rent is not within the maximum. *Id.* § 1.9(d). If the Department rejects the proposed renegotiated lease rent, the lessor and lessee must continue their renegotiation. *Id.*

Any party aggrieved by the Department's action or inaction may appeal to the Department. *Id.* § 1.9(e). Upon the filing of an appeal, the Department shall (1) hold a

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[4] In the definition of "initial lease rent," the ordinance states that initial lease rent "excludes any lease rents that reflect reduced rent at the beginning of the lease due to construction of the project or due to special negotiations between the developer and the land owner." Ord. 91-96 § 1.1.

[5] CPI is defined as "the Consumer Price Index for All Urban Consumers (CPI-U) for Honolulu published by the Bureau of Labor Statistics of the United States Department of Labor." Ord. 91-96 § 1.1.

hearing in accordance with the contested case procedures of Chapter 91 of the Hawaii Revised Statutes, and (2) issue an appropriate decision.[6] *Id.*

If an owner-occupant transfers his leasehold interest during a renegotiated rent period to another person intending to be an owner-occupant, the renegotiated lease rent shall be applicable to the new owner-occupant. *Id.* § 1.10. However, if an apartment owner ceases to be an owner-occupant or if an owner-occupant transfers his leasehold interest to a person who is not an owner-occupant, the lessor may reopen the negotiated lease rent. *Id.* § 1.12, 1.13. Once reopened, the renegotiated lease rent must be set in accordance with the lease agreement and without regard to the provisions of Ordinance 91-96. *Id.*

B. THE TAKINGS CLAUSE (COUNT II)

1. Richardson I

In *Richardson v. City and County of Honolulu,* 759 F.Supp. 1477 (D.Haw.1991) *("Richardson I"),* this court considered the constitutionality of Ordinance 91-96's statutory predecessor, Ordinance 90-95. This court held that Ordinance 90-95 violated the Takings Clause of the United States Constitution. As the City drafted Ordinance 91-96 so as to attempt to correct the constitutional deficiencies of Ordinance 90-95, it is necessary to review *Richardson I.*

Ordinance 90-95 was designed to impose a maximum ceiling on renegotiated lease rents for residential condominiums in Honolulu. The ordinance provided that the renegotiated annual ground rent shall not exceed the initial lease rent paid at the beginning of the lease term multiplied by a "rent factor." *Richardson I,* 759 F.Supp. at 1479. The rent factor was an average of an "inflation factor" and an "income factor." *Id.* The lessors were bound by the rent figure determined by this formula regardless of whether the initial rent paid by the lessee reflected the market value of the property at the time. the lease began. *Id.* at 1480.

The court further explained:

> The maximum renegotiated rents mandated by the Ordinance apply for the full renegotiated rent period and are not readjusted to reflect changes in the [indexes for the inflation and income factors] which might occur during that time. The Ordinance does not take into consideration the location or any other unique or particular characteristics of the property. There is no administrative procedure for appeal, and no governmental body has been established or designated in the Ordinance for

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[6] The drafters of Ordinance 91-96 apparently attempted to take into account the potential conflict between Hawaii Revised Statutes chapter 658 which governs the finality of arbitration awards and section 1.9 of Ordinance 91-96. Section 1.9(f) provides that if a court of competent jurisdiction rules, or the state attorney general or corporation counsel opines, that a renegotiated lease rent set by arbitration may be vacated, modified, or corrected only pursuant to chapter 658, then a petition seeking such action shall be subject to chapter 658 and the parties may not appeal to the Department.

> the purpose of interpreting and applying the Ordinance's provisions.

759 F.Supp. at 1480.

The court held that Ordinance 90-95 was unconstitutional under the Fifth Amendment's Takings Clause because: (1) the ordinance did not allow lessors a reasonable rate of return; and (2) the ordinance's means did not rationally further its public purpose.

The court found that Ordinance 90-95 on its face deprived lessors of a just and reasonable rate of return because the rent ceiling was based on the amount of rent paid by the lessee during the first year of the lease. 759 F.Supp. at 1489. The undisputed evidence in the case showed that the rent paid by lessees during the first year of their leases was often far below market value. *Id.* at 1490. The court further determined that Ordinance 90-95 was unconstitutional because it did not provide a mechanism for periodic review of the rent ceilings imposed in order to ensure that lessors are continuously afforded a fair rate of return. *Id.* at 1491.

Additionally, while the court found that Ordinance 90-95 had a legitimate public purpose, it determined that the ordinance did not reasonably further the ordinance's goal of reducing the cost of leasehold housing for the people of Hawaii. 759 F.Supp. at 1493. The evidence in the case demonstrated that the ordinance applied to numerous types of condominiums which are not rented by lessees seeking residential housing. *Id.* at 1494. In fact, the evidence showed that only about 37% of all residential leasehold condominiums on Oahu were owner-occupied. As Ordinance 90-95 applied only to renegotiated annual ground rents, the court noted that it was inapplicable to sublessees who are the majority of the occupiers of condominiums.

The court summarized the problems of Ordinance 90-95 as follows:

> To the extent that the drafters intended to provide renters with more affordable housing, the approach chosen by the drafters of Ordinance 90-95 is not constitutionally rational, First, the Ordinance does not place any restrictions on rents charged to occupants by sublessors. Sec7ond, the terms of the Ordinance apply not only to residential condominiums but also to commercial condominiums. Third, the Ordinance does not take into consideration the individual characteristics or market value of any piece of property in determining the maximum allowable renegotiated rent. Finally, no governmental agency has been designated to interpret the Ordinance, oversee its application, or evaluate whether the rent ceiling is reasonable in every case.

759 F.Supp. at 1494.

While the court determined that Ordinance 90-95 was unconstitutional, the court noted:

> Careful review and analysis of constitutional law and precedent convinces this court that a properly crafted ordinance, the purpose of which is to limit lease rent increases, can pass constitutional muster. . . . This court *does* not hold that *every* effort to regulate rent renegotiations would be unconstitutional. Rather, the court finds that *this particular ordinance is* unconstitutionally overbroad.

Id. at 1479, 1488.

2. General Taking Analysis

The Takings Clause of the Fifth Amendment to the United States Constitution states that "private property [shall not] be taken for public use, without just compensation." The Takings Clause applies to the states through the Fourteenth Amendment. *Hawaii Housing Authority v. Midkiff, 467* U.S. 229, 244 n. 7, 104 S.Ct. 2321, 2331 *n. 7,* 81 L.Ed.2d 186 (1984). Moreover, a state may delegate its power to condemn to a municipality. Cf. *Jacobson v. Tahoe Regional Planning Agency,* 566 F.2d 1353 (9th Cir.1977), *aff'd in part and rev'd in part on other grounds,* 440 U.S. 391, 99 S.Ct. 1171, 59 L.Ed.2d 401 (1979). "When the power to condemn has been delegated to a municipality, the municipality acts under color of state law, and therefore the prohibitions of the fifth and fourteenth amendments apply." *Richardson I,* 759 F.Supp. at 1487.

The Supreme Court has consistently distinguished "physical takings" from "regulatory takings." A physical taking occurs when a governmental entity authorizes a permanent physical occupation of real property. On the other hand, the regulatory taking issue typically arises when a government regulation, such as a zoning regulation or a rent control law, affects a property owner's ability to use his land. The distinction between a physical taking and a regulatory taking is significant because the Supreme Court has applied vastly different standards to the two types of takings.

3. Physical Taking

The Supreme Court addressed at length the issues regarding a physical taking in *Loretto v. Teleprompter Manhattan CATV Corp.,* 458 U.S. 419, 102 S.Ct. 3164, 73 L.Ed.2d 868 (1982). In that case, the defendant cable television company installed a cable on the roof of the plaintiff's apartment building. The company's actions were in accordance with a New York law which required a landlord to permit a cable television company to install its cable facilities upon his property. The issue in the case was "whether a minor but permanent physical occupation of an owner's property authorized by government constitutes a 'taking' of property for which just compensation is due under the Fifth and Fourteenth Amendments of the Constitution." *Id.* at 421, 102 S.Ct. at 3168. The Supreme Court held that any permanent physical occupation constitutes" a per se taking thereby requiring just compensation. *Id.* at 426-441, 102 S.Ct. at 3170-79.

The instant case does not involve an actual permanent physical occupation as was present in *Loretto.* Nonetheless, Bishop Estate relies on a series of decisions from the courts of appeals which held that certain mobile home park rent control ordinances effected "physical takings," similar to the type of taking in *Loretto.* These ordinances

allegedly transferred possessory rights in the mobile home park from the owners to the tenants by essentially giving tenants a transferable right to a perpetual lease at below-market rental rates. *See Azul Pacifico, Inc. v. City of Los Angeles,* 948 F.2d 575 (9th Cir.1991), *opinion withdrawn on other grounds,* 973 F.2d. 704 (9th Cir. 1992);[7] *Pinewood Estates v. Barnegat Township Leveling Bd.,* 898 F.2d 347 (3d Cir.1990); *Hall v. City of Santa Barbara,* 833 F.2d 1270 (9th Cir.1986), *cert. denied,* 485 U.S. 940, 108 S.Ct. 1120, 99 L.Ed.2d 281 (1988).

The physical taking analysis in the aforementioned cases, however, was overruled by the Supreme Court's recent opinion in *Yee v. City of Escondido,* ____ U.S. ____, 112 S.Ct. 1522, 118 L.Ed.2d 153 (1992). *In Yee,* the plaintiff mobile home park owners challenged a local mobile home park rent control ordinance. The park owners alleged that the ordinance constituted a physical taking under *Loretto.*[8] Rejecting the owners' arguments, the Supreme, Court held that a physical taking occurs only when the government requires the landowner to submit to the physical occupation of his land. *Id.* 112 S.Ct. at "1529. The Court emphasized that the mobile home park owners voluntarily rented their land to the tenants; the park owners' tenants were invited by the park owners, not forced upon them by the government. *Id.* The Court explicitly rejected the rationale of Hall and *Pinewood Estates. Id.* at 1527 ("We granted certiorari . . . to resolve the conflict between the decision below [dismissing the complaint] and those of two of the federal Courts of Appeals in Hall [and *Pinewood Estates.*]).

Additionally, the Court found that the factual circumstances in *Yee* were similar to the case of *FCC v. Florida Power Corp.,* 480 U.S. 245, 107 S.Ct. 1107, 94 L.Ed.2d 282 (1987). In that case, the plaintiff utility company leased space on its utility poles to cable television companies for the installation of cables. Pursuant to federal agency action, the annual rent of several cable companies was reduced from between $7.15-$5.50 per pole to $1.79 per pole annual rent. Rejecting the utility's physical taking argument, the Supreme Court explained:

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[7] In *Azul-Pacifico,* the Ninth Circuit granted a petition for rehearing and withdrew its previous decision reported at 948 F.2d 575. On rehearing, the court did not address the takings clause issues, but it vacated the lower court's judgment on other grounds. In particular, the court held: (1) the plaintiff could not bring a direct constitutional claim without utilizing 42 U.S.C. § 1983; and (2) the claims were barred by the statute of limitations.

[8] The Court summarized plaintiffs' argument as follows:

> Because under the California Mobilehome Residency Law park owner cannot evict a mobile home owner or easily convert the property to other uses, the argument goes, the mot home owner is effectively a perpetual tenant of the park, a the increase in the mobile home's value thus represents right to occupy a pad at below-market rent indefinitely. And because the Mobilehome Residency Law permits the mobile home owner to sell the mobile home in place, the mobile homeowner can receive a premium from the purchaser corresponding to this increase in value. The amount of this premium is not limited by the Mobilehome Residency Law or the Escondido ordinance. As a result, petitioners conclude, the rent control ordinance has transferred a discrete interest in land—the right to occupy the land indefinitely at a sub-market rent--from the park owner to the mobile home owner. Petitioners contend that what has been transferred from park owner mobile home owner is no less than a right of physical occupation of the park owner's land.
>
> 112 S.Ct. at 1528.

> [The utility contends,] in essence, that it is a taking under *Loretto* for a tenant invited to lease at a rent of $7.15 to remain at the regulated rent of $1.79. But it is the invitation, not the rent, that makes the difference. The line which separates these cases from *Loretto* is the unambiguous distinction between a commercial lease and an interloper with a government license.

Pursuant to the Supreme Court's holdings in *Florida Power* and *Yee*, this court finds that there is no physical taking in the present case. In support of their physical taking allegation, Bishop Estate relies almost entirely on *Hall*, *Pinewood Estates*, and *Azul-Pacifico*. Yet the physical taking rationale of these cases was specifically rejected *in Yee*. Moreover, the condominium lessees in the present case are entirely analogous to the tenants in *Florida Power* and *Yee*. The lessees are occupying their condominiums as a result of leases extended by the lessors, not as a result of governmental mandate. The City did not require the lessors to be subject to physical occupation of their land.

4. Regulatory Taking

a) Applicable Law

The long-standing rule regarding regulatory takings was enunciated by Justice Holmes: "while property may be regulated to a certain extent, if regulation goes too far it will be recognized as a taking." *Pennsylvania Coal Co. v. Mahon*, 260 U.S. 393, 415, 43 S.Ct. 158, 160, 67 L.Ed. 322 (1922). With respect to the regulation of housing, the Supreme Court has indicated:

> This Court has consistently affirmed that States have broad power to regulate housing conditions in general and the landlord-tenant relationship in particular without paying compensation for all injuries that such regulation entails. . . . So long as these regulations do not require the landlord to suffer the physical occupation of a portion of his building by a third party, they will be analyzed under the multi-factor inquiry generally applicable to nonpossessory governmental activity.

Loretto v. Teleprompter Manhattan CATV Corp., 458 U * S. 419, 440, 102 S.Ct. 3164, 3178, 73 L.Ed.2d 868 (1982) (citing, among others, the following two rent control cases: *Bowles v. Willingham*, 321 U.S. 503, 64 S.Ct. 641, 88 L.Ed. 892 (1944); and *Block v. Hirsh*, 256 U.S. 135, 41 S.Ct. 458, 65 L.Ed. 865 (1921)).

The seminal case regarding regulatory takings is *Penn Cent. Transp. Co. v. City of New York*, 438 U.S. 104, 98 S.Ct. 2646, 57 L.Ed.2d 631 (1978). In that case, pur-

suant to the City of New York Landmarks Preservation Law,[9] the Grand Central Terminal ("Terminal"), owned by plaintiff Penn Central Transportation Company ("Penn Central"), was designated as a historical landmark. After Penn Central's proposal to build a 55-story office building on top of the Terminal was rejected,[10] it filed suit alleging that the application of the Landmarks Preservation Law to the terminal constituted a "taking" in violation of the Fifth and Fourteenth Amendments.

The Supreme Court held there was no taking. The Court explained that the taking analysis involves essentially ad hoc, factual inquires involving several factors. 438 U.S. at 124, 98 S.Ct. at 2659. The Court indicated that a court must consider the economic impact of the regulation on the plaintiff, the extent to which the regulation has interfered with distinct investment-backed expectations, and the character of the government action. *Id.*

The Supreme Court rejected Penn Central's argument that the Landmarks Preservation Law effected a taking because its operation significantly diminished the value of the Terminal site. 438 U.S. at 131, 98 S.Ct. at 2662. Of particular importance, the Court noted that Penn Central had conceded that the parcel of land occupied by the Terminal was, at the time of the lawsuit, capable of earning a reasonable return. *Id.* at 129, 98 S.Ct. at 2661. Accordingly, the Court held that while the Landmark Preservation Law undeniably interfered with Penn Central's profit-making ability, the law still afforded Penn Central a reasonable return on its investment. 438 U.S. at 136-37, 98 S.Ct. at 2665-66.

While *Penn Central* provides the general framework for evaluating a regulatory taking claim, subsequent federal and state cases have refined the analysis with respect to rent control laws. A rent control scheme must guarantee efficient landlords/lessors a just and reasonable rate of return on their investments. *Pennell v. City of San Jose*, 485 U.S. 1, 13, 108 S.Ct. 849, 858, 99 L.Ed.2d 1 *(1988); Cromwell Assocs. v. Newark,* 511 A.2d 1273, 1275 (N.J.Super.Ct.Law Div.1985) (rejecting any percentage limitation on a landlord's ability to seek rent increases under a landlord hardship provision). In addition to the just and reasonable rate of return requirement, rent control legislation must substantially advance legitimate public interests. *Richardson I,* 759 F.Supp. at 1493 (citing *Agins v. City* of *Tiburon,* 447 U.S. 255, 260, 100 S.Ct. 2138, 2141, 65 L.Ed.2d 106 (1980)).

b) Individualized Consideration

As indicated above, this court set forth four reasons in *Richardson I* why the approach of Ordinance 90-95, Ordinance 91-96's predecessor, did not substantially advance the purpose of the law. One of the stated problems with Ordinance 90-95 was that "the Ordinance [did] not take into consideration the individual characteristics or market value of any piece of property in determining the maximum allowable renegotiated rent."

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[9] The City of New York enacted the Landmarks Preservation Law which created a commission having the power to designate historic landmarks in New York City. Once a site is designated as a landmark numerous restrictions attach to the property owner's use of the property. In order to partially offset the effect of these restrictions, landmark owners who have not developed their property to the extent otherwise allowed by the general zoning laws are allowed to transfer their development rights to other parcels in the vicinity. 438 U.S. at 109-114, 98 S.Ct. at 2651-54.

[10] Penn Central would have received $1-3 million annually from the proposed project.

Richardson I, 759 F.Supp. at 1494-96. In drafting Ordinance 91-96, the City failed to adequately address this significant defect.

The requirement of individualized consideration is apparent from other cases which have addressed taking issues. For example, in *Midkiff,* the United States Supreme Court upheld the State of Hawaii's Land Reform Act of 1967. Yet the Land Reform Act allowed the parties affected by the condemnation to present evidence of the fair market value of the subject property. *Midkiff,* 467 U.S. at 234 & n. 2, 104 S.Ct. at 2326 & n. 2 (citing Haw. Rev.Stat. § 516-56); *see also Richardson I,* 759 F.Supp. at 1494-96.

With respect to taking challenges to rent control laws, courts have recognized:

> The very nature of rent control requires that a limit be, placed on rent increases. Such limits have been held valid providing a safety valve, such as a hardship mechanism, exists which can assure, an efficient landlord a fair return . . . . .. [E]very rent control ordinance must be deemed to intend, and will be so read, to permit property owners to apply to the local administrative agency for relief on the ground that the regulation entitles the owner to a just and reasonable return."

Cromwell Assocs. v. Newark, 511 A.2d 12731 1275 (N.J.Super.Ct.Law Div.1985) (citing and quoting Hutton Park Gardens v. West Orange Town Council, 68 N.J. 543, 350 A.2d 1 (1975)).

Recent cases which have upheld rent control laws have involved statutes which provided for some degree of individualized consideration. For instance, under the rent control scheme in *Pennell v. City of San Jose,* 485 U.S. 1, 108 S.Ct. 849, 99 L.Ed,2d 1 (1988), when a tenant objected to a landlord's proposed rent increase, a hearing Officer would determine the reasonableness of the proposed increase. *Id.* at 5, 108 S.Ct. at 853. The rent control ordinance required that the hearing officer examine "the history of the premises, the landlord's costs, and the market for comparable housing." *Id.* at 13, 108 S.Ct. at 858. The ordinance also allowed the landlord to present any other relevant financial evidence pertaining to the property. *Id.*

Moreover, even rent control schemes which have been declared unconstitutional have typically contained some mechanism for individualized consideration. *See, e.g., Birkenfeld v. City of Berkeley,* 17 Cal.3d 129, 130 Cal. Rptr. 465, 493, 550 P.2d 1001, 1029 (1976) (landlords may petition rent control board for a rent adjustment); *Cromwell Assocs.,* 511 A.2d at 1274 (rent control ordinance permitted board-approved increases in cases where the proofs demonstrate that a particular hardship forecloses on a landlord's ability to obtain a fair rate of return defined by the ordinance as an 11.5% return on investment).

In *Yee v. Escondido,* ____ U.S.____, 112 S.Ct. 1522, 118 L.Ed.2d 153 (1992), the mobile home rent control ordinance in question prohibited rent increases without the approval of the city council. *Id.* 112 S.Ct. at 1527. However, mobile home park owners were allowed to apply for a rent increase at any time. *Id.* The city council was required to approve any increases which it deemed "just, fair, and reasonable" after considering a non-

exclusive list of eleven factors most of which pertained to the individual mobile home pads at issue. *Id.*

In contrast to the aforementioned cases, absolutely nothing in Ordinance 91-96's regulatory scheme accounts for the many unique factors, such as the rate of development in surrounding areas, which may affect the value of an individual parcel of real property at the time of renegotiation. At the hearing, the City conceded this fact.[11] To reiterate, the maximum annual renegotiated lease rent under the provisions of Ordinance 91-96 is determined solely on the basis of the *initial lease rent* and the *rent factor derived from the CPI.* The problem of lack of individual consideration in determining the renegotiated lease rent is compounded by the absence of any mechanism, such as a variance, for obtaining relief for special circumstances. *See Cromwell Assocs. v. Newark,* 511 A.2d 1273.4 1275 (N.J.Super.Ct.Law Div. 1985) (discussing the need for a safety valve or hardship mechanism with respect to rent control laws).

Ordinance 91-96's lack of individualized consideration is further exacerbated by the notable absence of any meaningful review process. *See Birkenfeld v. City of Berkeley,* 17 Cal.3d 129, 130 Cal.Rptr. 465, 550 P.2d 1001 (1976). In *Birkenfeld,* the California Supreme Court recognized that even when a rent control ordinance provides adequate standards for determining rental rates, the ordinance must provide procedural safeguards against unfairness in situations where the statutorily-determined rate would be unfair. *Id.* 130 Cal.Rptr. at 493-97, 550 P.2d at 1029-32.

The arbitration and appeal process in Ordinance 91-96 is focused exclusively on determining the correct initial lease rent and the rent factor from which the maximum annual renegotiated lease rent is calculated. The ordinance does *not* permit the arbitrator or the Department of Housing and Community Development to consider any other factors. At the hearing on these motions, the City conceded that the arbitration and appeal procedures are restricted to solely determining whether the maximum annual renegotiated lease rent is calculated properly under the statutory formula.

A review of the arbitration and appeal mechanism of Ordinance 91-96 reveals its inadequacies. If the lessor and lessee are unable to agree on an renegotiated lease rent, the parties must proceed to arbitration. Ord. 91-96 § 1.4(b). In arbitration, however, the arbitrator is restricted to determining the maximum renegotiated lease rent pursuant to the ordinance's formula of initial lease rent multiplied by the rent factor. *Id.* § 1.5. The arbitrator has no authority or discretion to consider any other factors in determining the maximum renegotiated lease rent. Furthermore, while all renegotiated lease rents must be certified by the City Department of Housing and Community Development, the Department's role is

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[11] The City argued that individual considerations are accounted for in the setting of the initial lease rent at the time the lease is originated. While this may be true, the individual characteristics of a piece of property often are significantly different at the time of renegotiation than they were at the initial date of the lease which could be several decades earlier. This court need only call attention to the massive redevelopment presently underway in the Kakaako area and the planned substantial redevelopment of the Honolulu waterfront. Both of these redevelopment projects are within the City and County of Honolulu and will without question have a marked effect on property values in condominiums within, abutting, or in the vicinity of these areas.

similarly restricted to merely ensuring compliance with the statutory formula for determining maximum renegotiated lease rent. *Id.* § 1.9.[12]

The City contends that lessors are ensured a fair rate of return by Ordinance 91-96's two types of adjustments: (1) the biennial adjustment for inflation (§ 1.6); and the administrative adjustment for increased operating expenses (§ 1.7). The court finds that neither of these adjustments provides the type of relief which is constitutionally mandated.

The biennial adjustment allows the previously determined maximum renegotiated lease rent to increase in accordance with the average consumer price index. Ord. 91-96 § 1.6. However, if the maximum renegotiated lease rent is originally set at a confiscatory rate, the biennial adjustment provides no relief from that confiscatory rate.[13] In other words, if the renegotiated lease rent is originally set at a confiscatory rate, the biennial adjustment merely prevents that confiscatory rate from becoming even more confiscatory by attempting to adjust the rate for inflation.

With respect to the administrative adjustment, that provision only applies if the lessor pays the operating expenses for the condominium exclusively from the lease rent proceeds. Ord. 91-96 § 1.7 (c) (2), (d) (3). However, the uncontradicted evidence before the court indicates that lessors "almost never assume the obligation to pay a condominium project's operating expenses, and if such an obligation is assumed, the expenses are not paid exclusively from lease rent proceeds, but are paid through separate charges." Aff. of Paul J. Cathcart ¶ 3 (attached to Bishop Estate Mot. Partial Summ. J. filed 2/14/92). Thus, the court finds that the administrative .adjustment provision is largely irrelevant.

Accordingly, the court finds that Ordinance 91-96 violates the Fifth Amendment's Takings Clause because it does not provide for consideration of individual factors which may affect the value of a particular parcel of real property at the time of renegotiation. Furthermore, Ordinance 91-96 is infirm because it does not account for situations in which the renegotiated lease rent formula does not provide the lessor with a fair rate of return. In other words, there is no meaningful mechanism for obtaining relief when the lease rent formula results in a confiscatory rate.

c) Ground Lease Premium

In addition to Ordinance 91-96's lack of individualized consideration, Bishop Estate also argues that the ordinance fails to substantially advance its public purpose because it allows a lessee to monetize a below-market rate renegotiated lease rent at the expense of the lessor. Pursuant to Ordinance 91-96, if an owner-occupant transfers his

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[12] In addition, any party aggrieved by the Department's action or inaction may appeal to the Department under the contested case procedures of chapter 91 of the Hawaii Revised Statutes. Ord. 91-96 § 1.9(e). Nonetheless, on appeal, there is no evidence to suggest that the Department has the authority to provide any form of relief other than ensuring compliance with Ordinance 91-96's rent formula. Furthermore, this appeal process may be nullified if a court rules, or the State attorney general or the City corporation counsel opines, that the right to appeal to the Department conflicts with chapter 658 of the Hawaii Revised Statutes.

[13] Additionally, the court notes that the lessor is not automatically entitled to the biennial adjustment; the Department must approve such an adjustment. Ord. 91-96 § 1.6(a). As Ordinance 91-96 contains no standards for the Department to apply in determining whether to grant a biennial adjustment, the Department apparently has unlimited discretion to either grant or deny a biennial adjustment.

leasehold interest in a residential condominium unit to another person intending to be an owner-occupant, the renegotiated lease rent is assigned and applicable to the new owner-occupant.[14] Ord. 91-96 § 1.10. Bishop Estate contends that this provision allows an owner-occupant with a below-market rate renegotiated lease rent to sell his condominium and receive a monetary premium for the below-market rate lease rent.

In the mobile home rent control cases discussed above, the various ordinances all contained provisions which allowed tenants to transfer their rights to below-market rental rates to other buyers. *See Yee v. Escondido,* U.S. ____, 112 S.Ct. 1522, 1528-30, 118 L.Ed.2d 153 (1992); *Azul Pacifico, Inc. v. City of Los Angeles,* 948 F.2d 575, 581-82 (9th Cir.1991), *opinion withdrawn on other grounds,* 973 F.2d 704 (9th Cir.1992); *Pinewood Estates v. Barnegat Township Leveling Bd.,* 898 F.2d 347 (3d Cir.1990); *Hall v. City of Santa Barbara,* 833 F.2d 1270, 1278-80 (9th Cir.1986), *cert. denied,* 485 ____ U.S. 940, 108 S.Ct. 1120, 99 L.Ed.2d 281 (1988). The courts in those cases uniformly recognized the constitutional concerns inherent in such schemes.

The problem with rent control plans which permit the tenant to transfer his right to below-market rates is the tenant's ability to command a premium for his right. *See generally,* Werner Z. Hirsch & Joel G. Hirsch, *Legal-Economic Analysis of Rent Controls in a Mobile Home Context: Placement Values and Vacancy Decontrol,* 35 UCLA L.Rev. 399 (1988). In the mobile home cases, the premium represented the right to occupy the mobile home pad at a below-market rate. In the present case, the premium would represent the lessee's right to a below-market rate renegotiated ground lease rent. Thus, the right to receive the premium between the rent-controlled rate and the market rate is transferred from the landlord/ lessor to the tenant/lessee; this interest is worth the capitalized value of the difference between market rent and the controlled rent.

In *Hall,* the Ninth Circuit recognized the numerous Supreme Court cases which have upheld rent control laws. 833 F.2d at 1278.& nn. 19-20. The court commented, however, that none of the cases upholding rent control involved a situation in which the tenant could transfer his right to below-market rental rate to others in order to reap a monetary windfall. *Id.* The court emphasized:

> This is not a minor difference; it is crucial. The fact that the tenant can sell his interest to third parties drastically affects the economic realities of the landlord/tenant relationship. The typical rent control statute modifies the landlord/tenant relationship somewhat to protect tenants from perceived evils of the free-enterprise system. .
>
> That tenants normally cannot sell their rights in rent controlled property provides important safeguards for landlords. . . . If [tenants] are denied the right to cash out, tenants can enjoy the

[14] The court notes that the renegotiated lease rent is not assignable if an owner-occupant transfers his leasehold interest to a new owner who does not intend to be an owner-occupant. Ord. 91-96 § 1.13. Nonetheless, this fact does not alleviate the problems associated with assignments to new owners who do intend to be owner-occupants.

> benefits of rent control only so long as they remain tenants, not beyond. When the premises become vacant, the landlord is able to reassert a measure of control over the property.

Id. at 1279.

The Third Circuit also adopted the reasoning of *Hall* in *Pinewood Estates*. In the spring of 1992, the Supreme Court commented on the premium issue in *Yee v. Escondido*, ____ U.S. ____ 112 S.Ct. 1522, 118 L.Ed.2d 153 (1992).[15] The Supreme Court in *Yee* indicated that while the rent control premium issue was not relevant to a physical taking argument, the factor was likely relevant with respect to a regulatory taking analysis.[16] ____ U.S. at ____, ____, 112 S.Ct. at 1528, 1530. In particular the court explained:

> [The mobile home park owners] are correct in citing the existence of this premium as a difference between the alleged effect of the Escondido ordinance and that of an ordinary apartment rent control statute. Most apartment tenants do not sell anything to their successors (and are often prohibited from charging "key money"), so a typical rent control statute will transfer wealth from the landlord to the incumbent tenant and all future tenants. By contrast, [the mobile home park owners] contend that the Escondido ordinance transfers wealth only to the incumbent mobile home owner. This effect might have some bearing on whether the ordinance causes a regulatory taking, it may shed some light on whether there is a sufficient nexus between the effect of the ordinance and objectives it is supposed to advance. . . . But it has nothing to do with whether the ordinance causes physical taking.

112 9.0. at 1530 (bold added).

In the present case, the court finds that the principles relating to "premiums" in the mobile home context are applicable to the condominium market.[17] Like mobile home park tenants, owner-occupants of leasehold condominiums own their housing unit, the condominium itself, but lease the underlying land. Moreover, the below-market rate lease rent which applies to the mobile home tenants and leasehold condominium owner-occupants is transferable to subsequent purchaser of the mobile home pad or condominium. With respect to both mobile homes and condominiums, the availability of a below-market rate lease rent necessarily increases the value of the subject housing unit,

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[15] As mentioned in the physical taking discussion above, the Supreme Court in Yee rejected the notion set forth in Hall and Pinewood Estates that the mobile home rent control laws effected a physical taking. 112 S.Ct. at 1528-31.

[16] The Court declined to fully address the regulatory taking claim because that issue was not included in the question on which certiorari was granted. 112 S.Ct. at 1531-34.

[17] While Ordinance 91-96 has not yet been in operation, the court notes that the "premium" argument is ripe because this case involves a facial challenge to the ordinance. In *Yee*, the Supreme Court held that an analogous facial challenge was ripe. 112 S.Ct. at 1532.

thereby allowing a seller to command a premium upon the sale of the housing unit. This transfer of wealth problem is generally not a concern in the area of apartment rent control because apartment rentals do not involve the ownership component present in mobile homes or condominiums.[18]

The court finds that Ordinance 91-96 enables an owner-occupant to charge a premium, in connection with the sale of a leasehold condominium with a below-market rate renegotiated lease rent, thereby operating to transfer value from the lessor to the lessee/seller. In light of the reasoning of the aforementioned mobile home park cases, and the analogous effects of the mobile home park laws regarding rent control and Ordinance 91-96, the court finds that the availability of the premium and the resulting transfer of wealth from the lessor to the lessee under Ordinance 91-96 violates the Taking Clause.[19]

II. ORDINANCE 91-95

A. BACKGROUND

Ordinance 91-95 involves a mechanism for the transfer of the fee simple interest of leasehold property from condominium lessors to condominium lessees in Honolulu. In the "Findings and Purpose" section of Ordinance 91-95, the City found that there are approximately 16,000-17,000 residential condominium, cooperative and planned development units on leased land on Oahu.[20] Ord. 91-95 § 1. The City further found that the owners of such leased land had generally refused to sell proportionate shares in the land underlying such units. *Id.* As a result of this practice, the City determined that there exists "a serious shortage of fee simple residential condominium land, cooperative housing unit land and planned development land and [ ] an artificial inflation of the value of such land on Oahu." *Id.*

Accordingly, the City concluded that owners of condominiums on leased land should be able to acquire the proportionate share of leased land underlying their units at a fair and reasonable price. *Id.* In order to accomplish this objective, the City decided to use its eminent domain power to condemn the fee simple title to the land underlying

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[18] The Hirschs elaborate:

> If a rent control ordinance [pertaining to apartments] allowed alienation of a tenant's rights and benefits under rent control, presumably apartment tenants could gain a benefit similar to the placement value given to mobile home park tenants. A "key money" (money spent to obtain a rent controlled apartment, usually illegally) feature to apartment rent controls might give the tenant a similar ability to monetize the benefits of rent control.

Hirsch & Hirsch, *supra*, at 425 n. 87.

[19] As the court finds Ordinance 91-96 to be unconstitutional under the Taking Clause, it need not address Bishop Estate's due process (Counts III and IV), equal protection (Count V), contracts clause (Count VI), or state law claims (Counts X and XII) claims regarding Ordinance 91-96.

[20] For the sake of simplicity, the court will refer to all condominium apartments, cooperative housing units, and planned development units covered by Ordinance 91-95 as "condominiums," unless otherwise indicated. While the court recognizes the legal distinctions between these forms of apartment ownership, such distinctions are not relevant to the issues at hand.

condominiums, pay just compensation to the lessors/owners of such land, and sell the land to the condominium owners. *Id.*

The City Department of Housing and Community Development ("Department") is charged with administering, enacting appropriate rules, and enforcing Ordinance 91-95. Ord. 91-95 §§ 1.7, 1.8. Article 2 of Ordinance 91-95 governs the condemnation of condominium development leaseholds.[21] The condemnation procedures are triggered once at least twenty-five of the condominium owners within the development or the owners of 50% of the condominium units, whichever is less, apply to the Department to purchase the leased fee interest. *Id.* § 2.2 (a)(1). After such an application, the Department must publish notice and hold a public hearing to determine whether the acquisition of the leased fee interest will effectuate the public purposes of the ordinance. *Id.* at § 2.2 (a) (2).

Within twelve months after the Department has designated a condominium development, or portion thereof, for acquisition, the Department must institute eminent domain proceedings unless the parties voluntarily agree to a sale of the property. Ord. 91-95 § 5.2. The compensation to be paid for the acquired property shall be the fair market value of the leased fee interest determined as of the date of the summons of the complaint in the eminent domain proceeding. *Id.* at 5.3.

After the City has acquired the subject land, authorized condominium lessees must purchase the underlying land within sixty days of acquisition. *Id.* § 2.3. In order to be eligible to buy the leased land, a purchaser must satisfy a list of seven requirements. *Id.* § 2.4.

B. TAKINGS CLAUSE (COUNT VII)[22]

1. Hawaii Housing Authority v. Midkiff

As Ordinance 91-95 involves leasehold conversion via eminent domain, the *court. notes* that this general issue has been thoroughly addressed by the Supreme Court in a very similar case, *Hawaii Housing Authority v. Midkiff,* 467 U.S. 229, 104 S.Ct. 2321, 81 L.Ed.2d 186 (1984). In that case, the plaintiffs challenged the State of Hawaii's Land Reform Act of 1967 which created a mechanism for condemning residential lots occupied by single-family homes on which the underlying land was leased, and transferring ownership of, the condemned fees simple to the lessees. As Ordinance 91-95 is modeled after the Land Reform Act, many of the procedural aspects of the Land Reform Act are similar, if not identical, to the provisions of Ordinance 91-95 as explained above.[23]

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[21] Articles 3 and 4 contain similar provisions relating to cooperative housing development leaseholds and residential planned development leaseholds, respectively.

[22] The court notes that much of the, law regarding the Takings Clause has been discussed above with respect to Ordinance 91-96. Accordingly, the court will not repeat the general discussion of Takings Clause law.

[23] The Supreme Court explained the method of condemnation under the Land Reform Act as follows:

The Supreme Court in *Midkiff* rejected the plaintiffs' arguments that the Land Reform Act violated the "public use'" requirement of the Fifth Amendment's Takings Clause. The Court explained that its role in reviewing the legislature's judgment regarding public use is extremely narrow. 467 U.S. at 240, 104 S.Ct. at 2329 (citing *Berman v. Parker*, 348 U.S. 26, 32, 75 S.Ct. 98, 102, 99 L.Ed. 27 (1954)). The Court indicated that it would defer to the legislature's public use determination unless the use involves an "impossibility" or is "palpably without reasonable foundation." *Id.* 467 U.S. at 240-41, 104 S.Ct. at 2329-30. The Court further noted that "where the exercise of the eminent domain power is rationally related to a conceivable public purpose, the Court has never held a compensated taking to be proscribed by the Public Use Clause." *Id.* at 241, 104 S.Ct. at 2329.

Accordingly, the Supreme Court upheld the Land Reform Act. The Court recognized that the Hawaii Legislature had determined that a land oligopoly existed and that such concentration was the cause of several types of local problems. *Id.* at 241-42, 104 S.Ct. at 2329-30. The Court reasoned that regulation of an "oligopoly and the evils associated with it is a classic exercise of a State's police powers." *Id.* at 242, 104 S.Ct. at 2330.

The Court further found that the Land Reform Act's approach to correcting the land oligopoly problem was not irrational. *Id.* The Court elaborated:

> [The Land Reform Act,] like any other, may not be successful in achieving its intended goals. But "whether *in fact* the provision will accomplish its objectives is not the question: the [constitutional requirement] is satisfied if . . . the . . . [state] Legislature *rationally could have believed* that the [Act] would promote its objective." When the legislature's purpose is legitimate and its means are not irrational, our cases make clear that empirical debates over the wisdom of takings no less than debates over the wisdom of other kinds of socio-economic legislation are not to be carried out in the federal courts. Re-distribution of fees simple to correct deficiencies in the market determined by the state legislature to be attributable to land oligopoly is a rational exercise of the eminent domain power. Therefore, the Hawaii statute must pass the scrutiny of the Public Use Clause.

Under the Act's condemnation scheme, tenants living on single-family residential lots within developmental tracts at least five acres in size are entitled to ask the [HHAJ to condemn the property on which they live. When 25 eligible tenants, or tenants on half the lots in the tract, whichever is less, file appropriate applications, the Act authorizes HHA to hold a public hearing to determine whether the acquisition by the State of all or part of the tract will "effectuate the public purposes" of the Act. If HHA finds that these public purposes will be served, it is authorized to designate some or all of the lots in the tract for acquisition. It then acquires, at prices set either by condemnation trial or by negotiation between lessors and lessees, the former fee owners' full "right, title, and interest" in the land.

After compensation has been set, HHA may sell the land titles to tenants who have applied for fee simple ownership.

467 U.S. at 242-43, 104 S.Ct. at 2330.

2. The Present Case

In light of the Supreme Court's holding and reasoning in *Midkiff* as well as the similarity between the Land Reform Act and Ordinance 91-95, the court finds little merit to Bishop Estate's taking argument regarding Ordinance 91-95. Bishop Estate argues that the public purpose of Ordinance 91-95 is without reasonable foundation. In particular, Bishop Estate maintains that the ordinance is based on the incorrect assumption that a concentration of land ownership currently exists with respect to land leased for condominiums which is similar to the oligopoly which justified the Land Reform Act in the single-family home context. Bishop Estate contends that there is no concentration of land ownership in relation to leased land underlying condominium projects.

The court finds no merit to this argument. The Supreme Court in *Midkiff* repeatedly emphasized the substantial deference which should be accorded to the relevant legislative body in the area of public use. 467 U.S. at 239-43, 104 S.Ct. at 2328-31. In the present case, the City Council determined that ownership of land beneath residential condominium projects is concentrated in the hands of owners who have refused to sell proportionate shares in their fee simple titles to lessees residing in the condominium units. Ord. 91-95 § 1. Thus, the City Council's primary concern was apparently the inability of the owners of leasehold condominiums to purchase proportionate shares of the underlying fee simple title. While the current concentration of land ownership with respect to leasehold condominiums may not be as drastic as the land oligopoly which prompted the Land Reform Act,[24] this contention does not undermine the City's determination that permitting leasehold condominium owners to purchase the underlying property serves a legitimate public purpose.

Bishop Estate also argues that Ordinance 91-95 fails to provide lessors with just compensation. It claims that they are entitled to severance damages for the partial condemnation of their leased land. It also contends that Ordinance 91-95 fails to exclude the effects that Ordinance 91-96 has on the valuation of the leased fees.

Bishop Estate's argument regarding just compensation is untenable. As section 5.3 of Ordinance 91-95 provides for payment of compensation equivalent to "the current fair market value of the leased fee interest," the ordinance clearly comports with the constitutional requirements for just compensation. *See United States v. Reynolds*, 397 U.S. 14, 16, 90 S.Ct. 803, 805, 25 L.Ed.2d 12 (1970).[25] Any arguments as to the proper manner

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467 U.S. at 233-34, 104 S.Ct. at 2325-26 (citations and footnotes omitted).

[24] Nonetheless, the court notes that Bishop Estate's own filings reveal that in 1987 the land underlying 45% of the condominium projects in Hawaii was owned by only 51 lessors. Bishop Estate Mot. Summ. J. filed 2/14/92, Ex. CC, at ii. Furthermore, at the time Ordinance 91-95 was enacted, Bishop Estate alone owned the fee simple interest under approximately 12,500 of the leasehold condominium units. Bishop Estate Mem. Opp. filed 6/29/92, at 8.

[25] In *Reynolds*, the Supreme Court explained:

of calculating current fair market value and the appropriate factors to be considered are premature in this facial challenge at this point in time.[26] *Southern Pacific v. City of Los Angeles,* 922 F.2d 498, 505-07 (9th Cir.1990) (facial takings challenge alleging denial of just compensation is not ripe unless the plaintiff has sought compensation through the available procedures), *cert. denied,* ____ U.S. ____, 112 S.Ct. 382, 116 L.Ed.2d 333 (1991); *see also Richardson I,* 759 F.Supp. at 1481. The City Department of Housing and Community. Development has yet to enact the necessary rules to effectuate Ordinance 91-95. More importantly, the state courts have not had an opportunity to interpret and apply the compensation provisions of Ordinance 91-95. In sum, Ordinance 91-95 states that landowners shall be paid fair market value; accordingly, in the absence of evidence to the contrary, this court assumes that all factors necessary to comply with constitutional requirements will be considered.[27]

C. SUBSTANTIVE DUE PROCESS (COUNT VIII)

In order to prevail on its substantive due process claim, Bishop Estate must establish that Ordinance 91-95 is "arbitrary and irrational." *Del Monte Dunes v. City of Monterey,* 920 F.2d 1496, 1508 (9th Cir.1990). Bishop Estate claims that Ordinance 91-95 does not have a legitimate government purpose and that the ordinance is not rationally related to the alleged legislative purpose. The court finds no merit to Bishop Estate's substantive due process claim.

This court rejected these same type of arguments with respect to Bishop Estate's taking claim discussed above. The court further notes that a plaintiff has an extraordinarily high burden to carry in order to demonstrate that a legislative enactment is arbitrary and irrational under the due process clause. *See Del Monte Dunes,* 920 F.2d at 1508. Moreover, courts should give substantial deference to a legislature's determination of a public use or purpose as well as the legislative means for carrying out the purpose. *Midkiff,* 467 U.S. at 239-243, 104 S.Ct. at 2328-31. In *Midkiff,* the Supreme Court specifically recognized that the use of the government's eminent domain power to effect lease-to-fee conversion is a rational response to serious housing problems. *Id.* at 242-43, 104 S.Ct. at 2330-31. The Court in *Midkiff* stated that it found no merit to the plaintiffs' due

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> And "just compensation" means the full monetary equivalent of the property taken. The owner is to be put in the same position monetarily as he would have occupied if his property had not been taken. In enforcing the constitutional mandate, the Court at an early date adopted the concept of market value: *the owner is entitled to the fair market value of the property at the time of the taking.*
>
> 397 U.S. at 16, 90 S.Ct. at 805 (footnotes omitted) (emphasis added).

[26] The court notes that Bishop Estate's argument regarding just compensation is distinct from the reasonable rate of return inquiry associated with Ordinance 91-96. With respect to Ordinance 91-96, the court had to determine whether a taking existed. One of the factors in determining whether a taking has occurred is whether the landowner will still be able to receive a fair rate of return on his property. In contrast, as Ordinance 91-95 involves complete condemnation, it necessarily involves a taking. Thus, the pertinent question is whether the landowner receives "just compensation" for the taking.

[27] The Ninth Circuit has held that a determination of "fair market value" may include severance damages. *United States v. 50.50 Acres of Land,* 931 F.2d 1349, 1358 (9th Cir.1991) ; see *generally Georgia-Pacific Corp. v. United States,* 226 Ct.Cl. 95, 640 F.2d 328 (1980).

process claim and it disposed of the matter in two sentences in a footnote. *Id.* at 243 n. 6, 104 S.Ct. at 2330 n. 6.

D. EQUAL PROTECTION (COUNT IX)

Generally, equal protection challenges are evaluated under rational-basis scrutiny to see whether the legislation at issue is irrational or wholly arbitrary. *Conti v. City of Fremont,* 919 F.2d 1385, 1389 (9th Cir.1990). Classifications based upon race, however, are presumptively invalid. *Personnel Adm'r of Mass. v. Feeney,* 442 U.S. 256, 272, 99 S.Ct, 2282, 2292, 60 L.Ed.2d 870 (1979). Nonetheless, the Supreme Court has made clear that "even if a neutral law has a disproportionately adverse effect upon a racial minority, it is unconstitutional under the Equal Protection Clause only if that impact can be traced to a discriminatory purpose." *Feeney,* 442 U.S. at 272, 99 S.Ct. at 2292 (emphasis added) (citing *Washington v. Davis*, 426 U.S. 229, 96 S.Ct. 2040, 48 L.Ed.2d 597 (1976), and *Arlington Heights v. Metropolitan Housing Dev. Corp.,* 429 U.S. 252, 97 S.Ct. 555, 50 L.Ed.2d 450 (1977)).

Thus, if the official action in question is race-neutral on its face, a plaintiff asserting an equal protection claim based upon race must prove the existence of racially discriminatory intent or purpose in order to prevail. *Arlington Heights,* 429 U.S. at 265, 97 S.Ct. at 563. The Supreme Court has cautioned that discriminatory intent or purpose requires more than simply intent as volition or awareness of consequences. *Feeney,* 442 U.S. at 279, 99 S.Ct. at 2296. A plaintiff must demonstrate that the legislation at issue was enacted "at least in part 'because of,' not merely 'in spite of,' its adverse effects upon an identifiable [racial] group." *Id.*; *see also Stop H-3 Ass'n v. Dole,* 870 F.2d 1419, 1431-32 (9th Cir.1989).

For the purposes of the present case, a brief examination of *Feeney* is instructive. In that case, female plaintiffs challenged a Massachusetts statute which gave veterans a preference for state civil service jobs. The plaintiffs alleged that the law violated their rights under the Fourteenth Amendment's Equal Protection Clause because the statute operated overwhelmingly to the advantage of men since over 98% of veterans were male.

Initially, the Supreme Court noted that the statute was gender-neutral on its face as it distinguished only between veterans and non-veterans, not men and women. 442 U.S. at 274, 99 S.Ct. at 2293. The Court reasoned that the law could not be rationally explained on the basis of gender:

> Veteran status is not uniquely male. Although few women benefit from the preference the nonveteran class is not substantially all female. To the contrary, significant numbers of nonveterans-male as well as female-are placed at a disadvantage. Too many men are affected by [the veterans preference law], to permit the inference that the statute is but a pretext for preferring men over women.

Id. at 275, 99 S.Ct. at 2294. In addition, the court noted that the statute's unfortunate impact upon women was easily explained, in a gender-neutral manner, by the legis.1a.ture's completely legitimate goal of aiding veterans. *Id.*

Furthermore, the Supreme Court in *Feeney* rejected the plaintiffs' allegations of gender-based discriminatory purpose. 442 U.S. at 276-80, 99 S.Ct. at 2294-97. Asserting that a person intends the natural and foreseeable consequences of his voluntary actions, the plaintiffs argued that the Massachusetts legislature must have intended to discriminate against women because the statute foreseeably and inevitably operated to the great disadvantage of women. *Id.* at 278, 99 S.Ct. at 2295. While the Court recognized the statute's foreseeable adverse consequences to women, the Court emphasized that there was no evidence that the preference for veterans was devised to harm women. *Id.* at 279, 99 S.Ct. at 2296. In essence, the purpose of the statute was clearly to help veterans, not to discriminate against women. *Id.* at 279-80, 99 S.Ct. at 2296-97.

In the present case, Bishop Estate argues that Ordinance 91-95 intentionally discriminates against Native Hawaiians. It contends that the discrimination is demonstrated in part by the fact that Bishop Estate and Liliuokalani Trust, two of the top five landowners affected by Ordinance 91-95, were created specifically for the benefit of Native Hawaiians.[28] Bishop Estate Mem.Opp. filed 6/29/92, at 7. However, Bishop Estate's equal protection arguments exhibit the same type of flaws as that of the plaintiffs' claims in *Feeney*.

Ordinance 91-95 is undoubtedly racially neutral on its face. Ordinance 91-95 applies to residential leasehold condominium lessors and lessees irrespective of the race or ethnic background of the affected parties. The impact of the ordinance is shared by all lessors, many of which, if not the majority, are not Native Hawaiian. Analogous to *Feeney,* too many non-Native Hawaiian lease fee owners are affected by Ordinance 91-95 to permit the inference that the statute is but a pretext for preferring non-Native Hawaiians over Native Hawaiians.

The present case is also similar to *Feeney* in that the plaintiffs have failed to establish any discriminatory intent or purpose. Like the legislators in *Feeney,* the drafters of Ordinance 91-95 were likely aware of the effect that the ordinance would have on entities, such as Bishop Estate, which are connected with Native Hawaiian ethnicity. However, in this case as well as *Feeney,* a perfectly legitimate government purpose explains the impetus of the legislation. Whereas *Feeney* involved aid to veterans, Ordinance 9195 was enacted in response to the critical problems in the Honolulu housing market, in particular leasehold condominiums. Thus, the court finds that the City has a legitimate public purpose for enacting Ordinance 91-95 and there is no credible evidence to support the notion that Ordinance 91-95 is but a pretext for discriminating against Native Hawaiians.

E. STATE CONSTITUTIONAL CLAIMS (COUNT XI)

In Count XI, Bishop Estate claims that Ordinance 9195 violates its rights under the takings, due process, and equal protection clauses of the Hawaii State Constitution. While the Hawaii State Constitution is generally modeled after the United States Constitution, the scope of its protections are not necessarily the same. *Hawaii*

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[28] More specifically, Bishop Estate argues that the alleged discriminatory purpose of Ordinance 91-95 against Native Hawaiians is evidenced by: disproportionate impact, history of public land policy, erroneous findings of fact, procedural irregularities in enacting the ordinance, the City's knowledge of the ordinance's impact, and the official action taken to enact the ordinance. Bishop Estate Mem.Opp. filed 6/29/92, at 5-30.

Housing Authority v. Lyman, 68 Haw. 55, 704 P.2d 888, 89,6 (1985). However, the legal analysis of Bishop Estate's claims under the aforementioned state constitutional provisions is essentially the same as the inquiry under the corresponding sections of the United States Constitution.[29] *See, e.g. id.* 704 P.2d at 897 (takings clause); State v. Cotton, 55 Haw. 148, 516 P.2d 715, 719 (1973) (due process clause); *Estate of Coates v. Pacific Eng'g*, 71 Haw. 358, 791 P.2d 1257, 1260 (1990) (equal protection clause). Accordingly, for the same reasons that this court rejected Bishop Estate's federal constitutional claims above, the court similarly finds its state constitutional arguments unpersuasive.

F. STATE STATUTORY CLAIMS (COUNT XIII)

In Count XIII, Bishop Estate contends that Ordinance 91-95 is preempted by various Hawaii state statutes. In particular, it claims that Ordinance 91-95 is preempted by the comprehensive provisions set forth in Hawaii Revised Statutes chapters 101 (eminent domain), 516 (residential leasehold condominiums and cooperatives), 519 (real property leases), 514A (condominiums), and 421H (cooperative housing corporations). For the reasons set forth below, the court certifies the preemption question to the Hawaii Supreme Court.[30]

The United States Supreme Court has consistently approved of the use of certified questions to state supreme courts when a federal court case involves an important question of state law which is both unclear under state legal precedent and would be determinative in the instant case. *Virginia v. American Booksellers Ass'n*, 484 U.S. 383, 393-98, 108 S.Ct. 636, 643-46, 98 L.Ed.2d 782 (1988); *Bellotti v. Baird*, 428 U.S. 132, 150-52, 96 S.Ct. 2857, 2867-68, 49 L.Ed.2d 844 (1976); *Lehman Bros. v. Schein*, 416 U.S. 386, 389-92, 94 S.Ct. 1741, 1743-45, 40 L.Ed.2d 215 (1974); *Clay v. Sun Ins. Office*, 363 U.S. 207, 212, 80 S.Ct. 1222, 1225, 4 L.Ed.2d 1170 (1960).[31] In *Lehman*, the Supreme Court explained:

> [Use of state certification procedures] does, of course, in the long run save time, energy, and resources and helps build a cooperative judicial federalism. Its use in a given case rests in the sound discretion of the federal court.

416 U.S. at 391, 94 S.Ct. at 1744 (footnote omitted).

While federal courts should not abdicate their duty to decide issues properly before them by routinely certifying questions to state supreme courts, certification under ap-

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[29] Moreover, the court notes that all of the parties have relied on the same arguments to support their positions on the state constitutional claims as they did with respect to the federal constitutional claims.

[30] The court need not certify the state law questions regarding Bishop Estate's claims under the Hawaii State Constitution because there is sufficient state law to enable this court to make an informed decision on these issues. Moreover, Rule 13(a) of the Hawaii Rules of Appellate Procedure permits certification only when there is no controlling precedent in the Hawaii judicial decisions.

[31] Most of the aforementioned cases as well as the succeeding cases regarding certification have extensive subsequent cases histories in light of the certified questions. As these cases are mentioned only as examples of certification and not for their substantive holdings, the court will omit the subsequent case histories

propriate circumstances can result in significant conservation of the litigants' time and money as well as judicial resources. The Ninth Circuit Court of Appeals has not hesitated to certify questions to state supreme courts when such questions involved important issues of unsettled state law which were controlling in the federal case.[32] District courts have similarly utilized the certification process. *See, e.g., Burdick v. Takushi,* 737 F.Supp. 582 (D.Haw.1990) (on remand following Ninth Circuit's reversal, district court certified three questions with respect to Hawaii election laws and write-in votes). The decision whether to certify a state law question to the state supreme court rests in the sound discretion of the federal district court. *Louie v. United States, 776* F.2d 819, 824 (9th Cir.1985).

In order for a federal court to be able to certify a question to a state supreme court, the state court must provide a specific procedure for receiving such questions. The Hawaii Supreme Court has authorized certified questions in Rule 13 of the Hawaii Rules of Appellate Procedure. Pursuant to Rule 13(a), a federal district court may certify a question to the Hawaii Supreme Court when such question (1) concerns Hawaii law which is (2) determinative of the cause and (3) there is no clear controlling precedent in the Hawaii judicial decisions.

In the present case, the court finds that Count XIII involves issues of state law which are determinative of the validity of Ordinance 91-95. The court further finds that the there is no clear controlling precedent in the Hawaii judicial decisions which disposes of these state law issues. In particular, this court finds conflicting authority as to whether Hawaii Revised Statutes chapter 101, which governs eminent domain procedures, preempts Ordinance 91-95.

On the other hand, the Hawaii legislature enacted the Land Reform Act which has eminent domain procedures nearly identical to those of Ordinance 91-95. Thus, the Hawaii legislature has specifically authorized certain types of eminent domain procedures which conflict with the general provisions of chapter 101. Furthermore, the State Attorney General has opined that Ordinance 91-95 is not preempted by state law.[33] On the other hand, relevant Hawaii statutory law seems to indicate that the City must utilize the eminent domain procedures in chapter 101 which appear to conflict with the procedures in Ordinance 91-95.

In addition the preemptory issues raised here implicate a broader question regarding the various county's authority to enact legislation in areas occupied, or at least partially occupied, by state law, While the Supreme Court of Hawaii has in the past addressed this question, as this case illustrates there remains significant room for interpretation and thus confusion. This question is of significant importance to both the counties

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[32]. See, e.g., Alaska Airlines v. United Airlines, 902 F.2d 1400, 1403-05 (9th Cir.1990); Morrell Constr. v. Home Ins. Co., 899 F.2d 875 (9th Cir-1990); Kunz v. Utah Power & Light Co., 871 F.2d 85, 87-88 (9th Cir.1989) ; Torres v. Goodyear Tire & Rubber Co., 867 F.2d 1234, 1237-39 (9th Cir.1989); Toner for Toner v. Lederle Labs., 779 F.2d 1429, 1432-34 (9th Cir.1986); Aetna Ins. Co. v. Craftwall of Idaho, 757 F.2d 1030, 1034 (9th Cir.1985); Meckert v. Transamerica Ins. Co., 742 F.2d 505, 506-07 (9th Cir.1984).

[33] *See* Opinion of the Attorney General of the State of Hawaii dated October 4, 1991, at 1. (Bishop Estate Mot. Partial Summ.J. filed 2/14/92, Ex. R). Nonetheless, the Attorney General did not specifically address the issue of preemption relating to chapter 101. To the contrary, the Attorney General seemed to, indicate that the City must utilize its eminent domain power pursuant to the procedures provided in chapter 101. Id. at 2.

and the state and transcends the boundaries of this case. Because this involves a pure question of state law and policy, in the final analysis it must be decided by the Hawaii Supreme Court.

This court is fully aware of the fact that certification in this case will cause some initial delay while the Hawaii Supreme Court addresses the certified question. Nonetheless, if this court were not to certify the state law preemption question, the court is confident that the Ninth Circuit Court of Appeals would itself order such certification in light of the controlling nature of the important, unsettled ,state law and policy issues. The court notes that the Ninth Circuit Court of Appeals has often certified questions to the Hawaii Supreme Court.[34]

Leaving the certification to the court of appeals would only cause further delay as well as undue confusion and uncertainty in the interim while the parties consider whether to act upon this court's decision on these purely state law issues in light of the pending appeal. Therefore, while certification will result in some initial delay, it will obviate a much greater delay and substantial confusion in the likely event the Ninth Circuit were to certify the preemption question while the case was on appeal.

Upon careful review of the relevant state law and the underlying state policy implications involved, the court finds that the purely state law preemption issue would be best answered in the first instance by the Hawaii Supreme Court. Accordingly, the court will certify this question to the Hawaii Supreme Court under Rule 13 of the Hawaii Rules of Appellate Procedure, and retain jurisdiction pending a determination by the Hawaii Supreme Court.

CONCLUSION

In *Richardson I*, this court held that Ordinance 91-96's predecessor statute, Ordinance 90-95, was unconstitutional for a number of reasons. Subsequent to that decision, the City, in enacting Ordinance 91-96, made an attempt to remedy the problems with Ordinance 90-95. While the City managed to correct some of the constitutional infirmities of Ordinance 90-95, it failed to appropriately address other defects. For the reasons stated above, the court GRANTS Bishop Estate's motion for partial summary judgment with respect to Ordinance 91-96 finding the ordinance unconstitutional for the reasons stated herein and DENIES the City's and the HALE Coalition's motions for partial summary Judgment regarding Ordinance 91-96.

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[34] *See, e.g., Smith v. Cutter Biological,* 911 F.2d 374 (9th Cir. 1990) (Ninth Circuit certified three questions regarding the Hawaii Blood Shield Law); *Graulty v. Bank of Hawaii,* 856 F.2d 78 (9th Cir.1988) (Ninth Circuit certified question pertaining to Hawaii Uniform Fiduciaries Act); *In re Asbestos Cases,* 829 F.2d 907 (9th Cir.1987) (Ninth Circuit certified question relating to Hawaii products liability law); *United States v. Allstate Ins. Co.,* 825 F.2d 243 (9th Cir.1987) (Ninth Circuit certified question regarding the government's ability to recover medical care costs under Hawaii law) ; *Kinoshita v. Canadian Pacific Airlines,* 803 F.2d 471 (9th Cir.1986) (Ninth Circuit certified question of Hawaii contract law) ; *Robinson v. Ariyoshi,* 753 F.2d 1468 (9th Cir.1985) (Ninth Circuit certified six questions regarding Hawaii water law issues).

With respect to Ordinance 91-95, this court has found the ordinance to be in compliance with the relevant provisions and standards of the United States Constitution and the Constitution of the State of Hawaii. Therefore, the court GRANTS the City's and HALE Coalition's motions for partial summary judgment with respect to the federal and state constitutional claims pertaining to Ordinance 91-95 finding the ordinance in compliance with federal and state constitutional standards and DENIES Bishop Estate's motion for partial summary judgment on those same claims.

The court also CERTIFIES to the Supreme Court of Hawaii the following question:

> According to Hawaii state law, is Ordinance 91-95 preempted by Hawaii Revised Statutes chapters 101, 516, 516D, 519, 514A, or 42 1 H?

The parties are ordered to submit the appropriate certificate in accordance with this court's separate order regarding certification.

IT IS SO ORDERED.

APPENDIX C

UNITED STATES DISTRICT COURT
D. HAWAII

Civ. No. 92-00372 HMF

SMALL LANDOWNERS OF OAHU,
a Hawaii nonprofit corporation,
Plaintiff,

V.

CITY AND COUNTY OF HONOLULU,
a Hawaii municipal corporation,
Defendant.

Sept. 16, 1993

ORDER GRANTING DEFENDANT'S MOTION FOR SUMMARY JUDGMENT

FONG, District Judge.

INTRODUCTION

On August 30, 1993, the court heard oral argument on cross motions for summary judgment filed by Plaintiff Small Landowners of Oahu ("Small Landowners") and Defendant City and County of Honolulu (the "City").

The subject of this lawsuit is the constitutionality of Ordinance 91-95, a condominium lease-to-fee ordinance similar to the single family residence lease-to-fee statute upheld by the United States Supreme Court in *Hawaii Housing Authority v. Midkiff,* 467 U.S. 229, 104 S.Ct. 2321, 81 L.Ed.2d 186 (1984).

In a case brought by the Bishop Estate, Judge David Ezra of this court had previously held that Ordinance 91-95 was constitutional under both the United States and Hawaii constitutions. *Richardson, et a]., v. City and County of Honolulu (Richardson II),* 802 F.Supp. 326 _(D.Haw.1992), Exh. A to the City's Motion. Before a ruling on the summary judgment motions, Small Landowners unsuccessfully attempted to intervene in that case. *Richardson II,* Order of July 6, 1992, Exh. C to City's Motion.

BACKGROUND

Ordinance 91-95 was enacted on December 8, 1991.

In *Richardson II*, the court explained the operation of Ordinance 91-95 as follows:

> Ordinance 91-95 involves a mechanism for the transfer of the fee simple interest of leasehold property from condominium lessors to condominium lessees in Honolulu. In the "Findings and Purpose" section of Ordinance 91-95, the City found that there are approximately 16,000-17,000 residential condominium, cooperative and planned development units on leased land on Oahu.[1] Ord. 91-95 § 1. The City further found that the owners of such leased land had generally refused to sell proportionate shares in the land underlying such units. *Id.* As a result of this practice, the City determined that there exists "a serious shortage of fee simple residential condominium land, cooperative housing unit land and Planned development land and [ ] an artificial inflation of the value of such land on Oahu." *Id.*
>
> Accordingly, the City concluded that owners of condominiums on leased land should be able to acquire the proportionate share of leased land underlying their units at a fair and reasonable price. *Id.* In order to accomplish this objective, the City decided to use its eminent domain power to condemn the fee simple title to the land underlying condominiums, pay just compensation to the lessors/owners of such land, and sell the land to the condominium owners. *Id.*
>
> The City Department of Housing and Community Development ("Department") is charged with administering, enacting appropriate rules, and enforcing Ordinance 91-95. Ord. 91-95 §§ 1.7, 1.8. Article 2 of Ordinance 91-95 governs the condemnation of condominium development leaseholds.[2] The condemnation procedures are triggered once at least twenty-five of the condominium owners within the development or the owners of 50% of the condominium units, whichever is less, apply to the Department to purchase the leased fee interest. *Id.* § 2.2 (a) (1). After such an application, the

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[1] For the sake of simplicity, the court will refer to all condominium apartments, cooperative housing units, and planned development units covered by Ordinance 91-95 as "condominiums," unless otherwise indicated. While the court recognizes the legal distinctions between these forms of apartment ownership, such distinctions are not relevant to the issues at hand.

[2] Articles 3 and 4 contain similar provisions relating to cooperative housing development leaseholds and residential planned development leaseholds, respectively.

> Department must publish notice and hold a public hearing to determine whether the acquisition of the leased fee interest will effectuate the public purposes of the ordinance. *Id.* § 2.2 (a) (2).
>
> Within twelve months after the Department has designated a condominium development, or portion thereof, for acquisition, the Department must institute eminent domain proceedings unless the parties voluntarily agree to a sale of the property. Ord. 91-95 § 5.2. The compensation to be paid for the acquired property shall be the fair market value of the leased fee interest determined as of the date of the summons of the complaint in the eminent domain proceeding. *Id.* § 5.3.
>
> After the City has acquired the subject land, authorized condominium lessees must purchase the underlying land within sixty days of acquisition. *Id.* § 2.3. In order to be eligible to buy the leased land, a purchaser must satisfy a list of seven requirements. *Id.* § 2.4.

Richardson II Summary Judgment Order at 29-32, City's Exh. C.

SUMMARY JUDGMENT STANDARD

Rule 56(c) of the Federal Rules of Civil Procedure provides that summary judgment shall be entered when:

> ... the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law.

The moving party has the initial burden of "identifying for the court those portions of the materials on Me that it believes demonstrate the absence of any genuine issue of material fact." *T.W. Elec. Serv., Inc. v. Pacific Elec. Contractors Ass'n,* 809 F.2d 626, 630 (9th Cir.1987) (citing *Celotex Corp. v. Catrett,* 477 U.S. 317, 323, 106 S.Ct. 2548P 2553, 91 L.Ed.2d 265 (1986)). The movant need not advance affidavits or similar materials to negate the existence of an issue on which the opposing party will bear the burden of proof at trial. *Celotex,* 477 U.S. at 323, 106 S.Ct. at 2553.

If the moving party meets its burden, then the opposing party must come forward with "specific facts showing that there is a genuine issue for trial" in order to defeat the motion. Fed.R.Civ.P. 56(e); *T.W. Elec.,* 809 F.2d at 630. The opposing party cannot stand on the pleadings nor simply assert that it will discredit the movant's evidence at trial. *Id.* "If the factual context makes the [opposing] party's claim *implausible,* that party must come forward with more persuasive evidence than would otherwise be necessary to show

that there is a genuine issue for trial." Cal. *Arch. Bldg. Prods. v. Franciscan Ceramics,* 818 F.2d 1466, 1468 (9th Cir.1987) (citing *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp.,* 475 U.S. 574, 587, 106 S.Ct. 1348, 1356, 89 L.Ed.2d 538 (1986)).

The standard for summary judgment reflects the standard governing a directed verdict. *Anderson v. Liberty Lobby, Inc.,* 477 U.S. 242, 250, 106 S.Ct. 2505, 2512, 91 L.Ed.2d 202 (1986)). When there is a genuine issue of material fact, "the judge must assume the truth of the evidence set forth by the [opposing] party with respect to that fact." *T.W. Elec.,* 809 F.2d at 631. Inferences from the facts must be drawn in the light most favorable to the non-moving party. *Id.*

DISCUSSION

I. PRECLUSIVE EFFECT OF RICHARDSON II

The City argues that the decision in *Richardson II* precludes Small Landowners from relitigating the constitutionality of Ordinance 91-95. The City advances res jud.1cata (claim preclusion), collateral estoppel (issue preclusion), and judicial estoppel as the sources of the preclusion.

Res judicata or claim preclusion provides that a final judgment, "when rendered on the merits. is an absolute bar to a subsequent action between the same parties or those in privity with them, upon the same claim or demand." *IB Moore's Federal Practice* ¶ 0.405[1] at p. III-4.

The City concedes that Small Landowners was not a party to the earlier suit, but argues that Small Landowners was in privity with the plaintiffs in *Richardson II.* "Privity" is more a conclusion based on the individual facts than a rigorous test. 18 Charles A. Wright, Arthur R. Miller, & Edward H. Cooper, *Federal Practice and Procedure* § *4449* (1981). The predominant factor in determining privity is the connection between the two parties. 'let. While both the *Richardson II* plaintiffs and Small Landowners are owners of condominiums affected by the statute, there is no other link shown. Thus, they are not in privity. Res judicata does not preclude Small Landowners.

The City argues in the alternative that collateral estoppel or issue preclusion bars relitigation of the issues decided in *Richardson II.* The doctrine of nonmutual collateral estoppel sometimes gives preclusive effect to earlier judgments obtained in litigation against others. *See Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation,* 402 U.S. 313, 91 S.Ct. 1434, 28 L.Ed.2d 788 (1971); *Green v. Ancora-Citronelle Corp.,* 577 F.2d 1380, 1384 & n. 2 (9th Cir.1978). The most important limitation on nonmutual preclusion is that the party precluded had a "full and fair opportunity to litigate in the prior action." 18 Charles A. Wright, Arthur R. Miller, & Edward H. Cooper, *Federal Practice and Procedure* § 4465 (1981).

Small Landowners did not have a full and fair opportunity to litigate in *Richardson II.* It would be unfair to bind them to a result that they were denied an opportunity to influence through their own arguments. Furthermore, if the City wanted to bind Small Landowners by the decision in *Richardson II,* it could have and should have

joined Small Landowners as a party to that litigation. *Martin v. Wilks*, 490 U.S. 755, 109 S.Ct. 2180, 104 L.Ed.2d 835 (1989). Thus, Small Landowners is not collaterally estopped by *Richardson II*.

Finally, the City argues that principles of "judicial estoppel" preclude Small Landowners from relitigating the constitutionality of Ordinance 91-95.

Judicial estoppel does not apply here. The doctrine of judicial estoppel prevents a party from asserting a position that is inconsistent with an earlier position taken in the litigation. *Yanez v. United States*, 989 F.2d 323 (9th Cir.1993). Here, Small Landowners has not asserted any inconsistent earlier positions.

II. CONSTITUTIONAL CHALLENGES TO ORDINANCE 91-95

Both sides have moved for summary judgment on Small Landowners' claims that Ordinance 91-95 effects an impermissible taking, that it violates substantive due process, and that it violates the Equal Protection Clause.

A. TAKINGS CLAUSE (COUNT 1, VII, XIV)

Count VII of the complaint alleges that Ordinance 9195 effects an impermissible taking in violation of the Fifth Amendment to the United States Constitution. Count XIV alleges a violation of the Takings Clause of the Hawaii State Constitution. Count I alleges that the taking was a deprivation of constitutional rights actionable under 42 U.S.C. § 1983.

The Takings Clause of the Fifth Amendment to the United States Constitution states that "private property [shall not] be taken for public use, without just compensation." The Takings Clause applies to the states through the Fourteenth Amendment. *Hawaii Housing Authority v. Midkiff*, 467 U.S. 229, 244 n. 7, 104 S.Ct. 2321, 2331 n. 7, 81 L.Ed.2d 186 (1984). Moreover, a state may delegate its power to condemn to a municipality. *Cf. Jacobson v. Tahoe Regional Planning Agency*, 566 F.2d 1353 (9th Cir.1977), *aff'd in part and rev'd in part on other grounds*, 440 U.S. 391, 99 S.Ct. 1171, 59 L.Ed.2d 401 (1979).

In *Midkiff*, the United States Supreme Court upheld Hawaii's Land Reform Act of 1967. That statute provided for condemnation of the fee simple interest of the land under leasehold single family residences. The Hawaii legislature had passed the Land Reform Act in an effort to correct a land oligopoly.

The Supreme Court found that the Land Reform Act's approach to correcting the land oligopoly problem was not irrational. *Id.* The Court elaborated:

> [The Land Reform Act,] like any other, may not be successful in achieving its intended goals. But "whether *in fact* the provision will accomplish its objectives is not the question: the [constitutional requirement] is satisfied if ... the ... [state] Legislature *rationally could have believed* that the [Act] would promote its objective." When the legislature's purpose is legitimate and its means are not irrational, our cases make clear that empirical debates over the wisdom of takings, no less than debates over the wisdom of other kinds of socioeconomic

> legislation are not to be carried out in the federal courts. Re-distribution of fees simple to correct deficiencies in the market determined by the state legislature to be attributable to land oligopoly is a rational exercise of the eminent domain power. Therefore, the Hawaii statute must pass the scrutiny of the Public Use Clause.

467 U.S. at 242-43, 104 S.Ct. at 2330.

The Takings Clause analysis under the Hawaii Constitution is similar. Article I, section 20 of the Hawaii Constitution reads, "[private property shall not be taken or damaged for public use without just compensation." In *Hawaii Housing Authority v. Lyman,* 68 Haw. 55, 704 P.2d 888 (1985), the Hawaii Supreme Court adopted a very deferential position similar to that in *Midkiff*:

> We therefore hold that once the legislature has spoken on the social issue involved, so long as the exercise of the eminent domain power is rationally related to the objective sought, the legislative public use declaration should be upheld unless it is palpably without reasonable foundation. The crucial inquiry is whether the legislature might reasonably consider the use public, and whether it rationally could have believed that application of the sovereign's condemnation powers would accomplish the public use goal.

Id. at 70-71, 704 P.2d 888.

The court now turns to the specific arguments advanced by Small Landowners.

1. The City Council's Findings

Small Landowners first argues that the City Council's findings are unsupported by the record. Specifically, Small Landowners asserts that there is no oligopoly in condominium ownership, that there is no shortage of fee simple condominiums, and that many lessees are financially better off than lessors.

Small Landowners has a difficult burden in attacking the City Council's findings of fact. The court must give deference to a legislative body's factual findings. A party challenging a factual finding made by a legislative body must show that "the legislative facts [relied upon] could not reasonably be conceived to be true by the governmental decisionmaker." *Vance v. Bradley, 440* U.S. 93, 110-11, 99 S.Ct. 939, 949-50, 59 L.Ed.2d 171 (1979); *Lamb v. Scripps College,* 627 F.2d 1015 (9th Cir.1980).

Small Landowners suggests that the court should not defer to the factual findings of the City Council because it is a municipality rather than a state legislature. Although Small Landowners correctly notes that municipalities and states are treated differently in the Eleventh Amendment immunity context, Small Landowners does not cite any case authority supporting its suggested distinction in this area.

The distinction is unwarranted because the deference given to legislative findings reflects a concern with the separation of powers between the legislature and the judiciary. It is as offensive to disturb the findings of city legis1ators as it is to disturb the findings of state legislators.

Moreover, despite the law review articles cited by Small Landowners, property owners are not "discrete and insular minorities" who deserve special judicial protection because they lack access to the political system. *United States v. Carolene Products Co.*, 304 U.S. 144, 58 S.Ct. 778, 82 L.Ed 1234 (1938). The absurdity of this suggestion is shown by the fact that the Bishop Estate is one of the institutions challenging this statute. The power of the Bishop Estate in Hawaii belies any claim that it lacks access to the political system.

Small Landowners suggests that the Supreme Court's decision in *Lucas v. South Carolina Coastal Council* signals reduced deference to legislative findings. ____ U.S. ____, 112 S.Ct. 2886, 120 L.Ed.2d 798 (1992). The *Lucas* Court rejected the South Carolina legislature's finding that construction on plaintiff's beach front property could be curtailed because it threatened serious public harm. In order to avoid compensating plaintiff for a regulatory taking, the Court held, the legislature would need to find that common law principles such as nuisance allowed the prohibition of the construction. *Id.* ____ U.S. at ____, ____, 112 S.Ct. at 2901-02.

Lucas does not mean that all legislative findings are suspect. Rather, it is distinguishable because the South Carolina legislature had a vested interest in finding that the plaintiff's use of his property caused harm. If the legislature determined that the use was harmful, it could restrict that use without paying compensation to the plaintiff. Thus, the legislature's finding of harm was inherently suspect. There is no reason to extend this heightened scrutiny to physical Takings cases in which the legislature has already committed itself to paying compensation.

Thus, the court will give great deference to the City Council's findings. The City Council need not consider the best evidence. Rather, it must simply have some evidence that could convince a rational legislator of the truth of the findings.

Applying this standard, the court finds adequate support for the City Council's findings.[3] For example, the City Council found that the leasehold condominium system allowed lessors to renegotiate large lease rent increases. This is supported by the statements of many persons who testified before the City Council.[4] Similarly, the testimony supported the City Council's findings that some lessees could not buy the fee simple interest without a

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[3] The court does not need to examine every finding. The findings that are supported provide an adequate basis for the Council to have passed the ordinance.

[4] *See, e.g.*, statements of Theresa Miyamoto, CX00019; Helen Higgins, ("I live at the Sandalwood, the apartment that was raised from affordable living to unaffordable right now.") CX00020; Darvin Haupert (lease rent increased by 8000 percent), CX00026-27; Knud Lindgard, CS00220; Richard Rosen, CX00252. All numbers refer to Bate stamp numbers given in Small Landowners' Exhibit 1.

mandatory conversion program,[5] and that lessees were forced to surrender their improvements on the land.[6]

Small Landowners most vigorously attacks the City Council's finding that land ownership is concentrated in the hands of owners who have refused to sell their fee simple interests. Citing statistics, Small Landowners argues that the fee simple interests are spread among many owners and that there is no concentration of ownership.[7] Thus, Small Landowners contends, there is no oligopoly that would support the passage of the ordinance as in *Midkiff*.

Small Landowners' argument is fruitless. First, the City Council's finding is not that there is an oligopoly, but rather that ownership is concentrated among landowners who have refused to sell. That finding almost proves itself because landowners who have agreed to sell are no longer owners. Moreover, the fact that landowners have refused to sell is supported by the statements cited above. Thus, the City Council's finding has adequate support.

Second, even if the finding was unsupported, it would not invalidate the ordinance. The City Council made several adequately supported findings upon which it could rationally decide to exercise its eminent domain power. Small Landowners has not succeeded in invalidating those findings.

2. The Use of Mandatory Conversion

Small Landowners argues that even if the findings are accepted, the mandatory conversion is irrational because it cannot correct these problems. Small Landowners supports its argument by noting that single-family residence prices rose after the mandatory conversion program went into effect. Thus, Small Landowners suggests, a rational legislator could not believe that condominium prices would fall.

The City Council's choice need not be a wise one, it must merely be rational. Ordinance 91-95 passes this minimal test. Transferring the fee simple title to the lessees will end the problem of gouging lessees on lease rent negotiations. The ordinance will force sales by unwilling lessors. Furthermore, it will allow lessees to keep the value of their improvements on the land. The means chosen by the City Council is a rational one.

3. Public Use Without Public Funds

Small Landowners further argues that there is no taking "for public.. use" because private funds are used in the conversion.

This argument was flatly rejected in *Midkiff*. There, the Supreme Court upheld the legislature's finding of public use despite the fact that private funds were used to buy the fee simple interests. *Midkiff*, 467 U.S. at 241, 104 S.Ct. at 2329. The question is not the

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[5] *See* Small Landowners Exhibit 1, testimony of Steve Holmes, CX00251; Edward Jurkens, CX00285; Jerome Manis, CX00283.

[6] *See*, Small Landowners Exhibit 1, Knud Lindgard, CX00220; Darvin Haupert, CX00215.

[7] *See* Ezra, O'Connor, Moon & Tam Report, Exhibit 4 to Small Landowners' Motion, at 47 (415 of 466 landowners (89%) own land under only one condominium project).

source of the funds, but rather whether the legislature rationally believed that the taking served a public purpose. *Id.*

The City Council reasonably believed that its eminent domain could solve the numerous problems that it found to have been caused by the condominium lease system. Thus, its decision to exercise its power comports with the constitution.

4. Taking of a Cotenancy

Small Landowners argues that the City may not condemn only a portion of the land, leaving the building's owner in a forced cotenancy with the former lessees. Small Landowners cites the following sentence from *Hendler v. United States, 952* F.2d 1364, 1374 (Fed.Cir.1991): "The Government does not have the right to declare itself a co-tenant-in-possession with a property owner."

The citation is taken completely out of context, and does not affect the result here. In *Hendler,* the district court had held that no taking occurred when the statute allowed EPA inspectors to enter the land and conduct monitoring. The appellate court reversed, holding that the government's entry onto land was a taking of the right to sole possession, and was therefore compensable. *Id.* at 1374. The *Hendler* court did not hold, as Small Landowners suggests, that the government can never take a portion of a property and leave the rest. The government's ability to take only a limited interest in property has been repeatedly affirmed. *See, e.g., Loretto v. Teleprompter Manhattan CATV Corp.,* 458 U.S. 419, 102 S.Ct. 3164, 73 L.Ed.2d 868 (1982) (government must pay for taking of land necessary for a roof top cable).

5. Inadequate Compensation

Small Landowners asserts that Ordinance 91-95 under-compensates the present owners for the value of the taken fee simple interests. This claim is unripe because the procedures challenged have never been used. *Southern Pacific v. City of Los Angeles,* 922 F.2d 498, 505-07 (9th Cir. 1990) (facial takings challenge alleging denial of just compensation is not ripe unless the plaintiff has sought compensation through the available procedures), *cert. denied,* ____ U.S. ____, 112 S.Ct. 382, 116 L.Ed.2d 333 (1991).

6. Generalized Claims of Unfairness

Small Landowners makes several generalized claims of unfairness as well.

Small Landowners argues that the City's tax policies forced landowners to develop condominiums which Will be taken away by Ordinance 91-95. Even if this seems harsh to the landowners, it is not a basis to invalidate Ordinance 91-95. Tax policy can create social problems that a city may attempt to solve by rational means. Ordinance 91-95 is a rational attempt to solve the ills that the City Council found, whatever their source.

Small Landowners notes that all five of the City Council members who voted for Ordinance 91-95 have interests in leasehold condominiums. This is not a basis to invalidate the statute. If it were, the City Council could never pass any statute dealing with condominiums. Disclosure of their interests allows the public to correct any problem through the political process.

B. SUBSTANTIVE DUE PROCESS (COUNTS VIII AND XV)

Counts VIII and XV allege that Ordinance 91-95 violates Small Landowners' substantive due process rights under the Fourteenth Amendment to the United States Constitution and Article 1, section 5 of the Hawaii Constitution.

In order to prevail on these claims, Small Landowners must establish that Ordinance 91-95 is "arbitrary and irrational." *Del Monte Dunes v. City of Monterey,* 920 F.2d 1496, 1508 (9th Cir.1990); *State v. Cotton,* 55 Haw. 148, 153, 516 P.2d 715 (1973). As explained above, Small Landowners does not meet this burden because the ordinance is a rational exercise of legislative power.

C. EQUAL PROTECTION (COUNTS IX, XVI)

Counts IX and XVI allege that Ordinance 91-95 violates Small Landowners' equal protection rights guaranteed by the Fourteenth Amendment to the United States Constitution and Article 1, section 5 of the Hawaii Constitution. Small Landowners argues the ordinance irrationally groups small landowners with owners such as Bishop Estate who own many projects.

Legislative classifications not involving a suspect class must be rationally related to furthering a legitimate state interest. *Massachusetts Board of Retirement v. Murgia,* 427 U.S. 307, 312, 96 S.Ct. 2562, 2566, 49 L.Ed.2d 520 (1976); *Estate of Coates v. Pacific Engineering,* 71 Haw. 358, 363, 791 P.2d 1257 (1990). Here, the City Council found that the refusal of both large and small landowners to sell their land created economic problems. Thus, the City Council rationally decided to treat the problem by subjecting both large and small landowners to mandatory conversion. There is no constitutional problem with this approach.

Small Landowners misplaces two other arguments under the equal protection banner. First, it asserts that Ordinance 91-95 violates equal protection because landowners who are forced to sell their properties will have a difficult time avoiding taxes by replacing them with tax free "like kind" properties. This is definitely a disadvantage to those forced to sell, but it is not an equal protection violation.

Second, Small Landowners again asserts the unfairness of forcing land owners into a cotenancy with their former lessees. Again, this does not show the use of an irrational classification, so it is not a violation of the Equal Protection Clause.

In summary, the court holds that Ordinance 91-95 is constitutional under both the federal and state constitutions. Accordingly, the court DENIES Small Landowners' motion for summary judgment, and GRANTS the City's motion for summary judgment on Counts I, VII, VIII, IX, XIV, XV, and XVI of the complaint.

III. COMPLIANCE WITH THE CITY CHARTER (COUNT XXII)

The City moves for summary judgment on Count XXII which alleges that Ordinance 91-95 conflicts with procedural requirements of Section 3-110 of the City Charter. Section 3-110 requires that the City Council, prior to taking property under its

eminent domain power, shall adopt a resolution declaring the necessity of the taking as well as other information regarding the property.

This issue is not ripe for a facial challenge to the statute. When the City actually condemns property, it will presumably be required to comply with the Charter. That question should be reserved for another day. Accordingly, the court GRANTS the City's motion for summary judgment on Count XXII.

CONCLUSION

In summary, this case is indistinguishable from *Midkiff,* and the lenient standards set there compel a conclusion that Ordinance 91-95 is a rational and constitutionally permissible exercise of the eminent domain power.

IT IS SO ORDERED.

APPENDIX D

ORDINANCE NO. 91-95

BILL NO. 156 (1990)
CD-1, FD-1

A BILL FOR AN ORDINANCE RELATING TO RESIDENTIAL CONDOMINIUM AND COOPERATIVE LEASEHOLD CONVERSION FOR REAL PROPERTY SITUATED IN THE CITY AND COUNTY OF HONOLULU.

BE IT ORDAINED by the People of the City and County of Honolulu:

SECTION 1. Findings and Purpose.

The Council finds that:

(a) The historical pattern of landownership on Oahu has led to the practice of landowners leasing rather than selling their land. Ownership of land beneath residential condominium apartments, cooperative housing units and residential planned developments on Oahu is consistent with this pattern and is concentrated in the hands of the owners of such land who have refused to sell proportionate shares in their fee simple titles to such land to the lessees residing in residential condominium apartments, cooperative housing units and planned developments situated on such land and who have instead engaged in the practice of leasing such proportionate shares of their lands to such lessees under long-term leases.

Runaway land prices, especially in the last three years, have put housing costs well beyond the means of a large segment of the population. These prices are driving up new leasehold ground rents (lease rents) that in large measure are based upon present fee values.

Under the terms of most residential leases, the renegotiated lease rent amount is typically based on land values existing at the time of renegotiation. As a result, the acute recent inflation of land costs has adversely affected lease rent negotiations of persons who have purchased leasehold multi-family units as their homes: in some instances renegotiations have resulted in lease rents that have increased over 1,000 percent. Under the burden of increased lease rents, many owner-occupants of residential condominium apartments, cooperative housing units and planned development units, especially those on fixed incomes, have found, and will continue to find themselves unable to afford. to continue living in their homes. If they are displaced from these homes, these owner-occupant lessees could be displaced entirely from the ranks of home-owners because of Oahu's continuing housing crisis. Therefore, there is a desire by many lessees to convert to fee ownership. At the present time, there are approximately 16,000-17,000 residential condominium, cooperative and planned development units on leased land on Oahu.

The refusal of such landowners to sell proportionate shares in their fee simple titles to their lands to such lessees and cooperative owners and the pervasiveness of such practice of leasing rather than selling such shares in the land has resulted in a serious shortage of fee simple residential condominium land, cooperative housing unit land and planned development land and in an artificial inflation of the value of such land on Oahu.

Due to such shortage of fee simple residential condominium, cooperative and planned development land and such artificial inflation of such land values, many people on Oahu have been deprived of a choice to own an interest in or take a lease of the land on which their residential condominium, cooperative and planned development homes are situated and have been required instead to pay exorbitant leased fee purchase prices for a proportionate fee simple ownership share in such land. These lessees have been forced to accept long-term leases or renewed leases of such land which contain terms and conditions that are financially disadvantageous to them, that restrict their freedom to fully enjoy such land and that are weighted heavily in favor of the landowners; or to surrender title to and possession of their residential condominium, cooperative and planned development homes at the expiration of their current leases.

The acquisition by people, who are lessees and owners of condominium apartments, cooperative housing units and planned development units, of proportionate shares of the land on which their homes are situated in fee simple, at fair and reasonable prices and the ability of such lessees and owners to fully enjoy such land through proportionate ownership of such land in fee simple will alleviate these conditions and will promote the economy of Oahu and public interest, health, welfare, security and happiness of such lessees and owners.

There is a close relationship between the monetary values accorded land on Oahu and the stability and strength of Oahu's economy as a whole. Residential condominium, cooperative housing and planned development land values, artificially inflated by concentrated or single ownership, market conditions or other factors, skew Oahu's economy toward unnecessarily high levels. The pervasive and substantial contribution made to inflation by high residential condominium, cooperative housing and planned development land values creates a potential for economic instability and disruption on Oahu. Economic inflation, instability and disruptions on Oahu have real and potential damaging consequences for all members of an affected society. Checking inflation, improving the stability of the economy, and avoiding disadvantageous economic disruptions all are productive of general benefit to all members of Oahu's community.

The sound and wise conservation, preservation, use and management of residential condominium, cooperative housing and planned development land cannot be separated from the subject of patterns of residential condominium, cooperative and planned development land ownership. To accomplish the public purpose of wisely conserving, preserving, using, and managing residential condominium, cooperative housing and planned development land on Oahu requires changing present patterns of residential condominium, cooperative housing and residential planned development land ownership. Changing present patterns of such land ownership on Oahu by allowing residential

condominium lessees, cooperative housing unit owners and planned development housing owners under leases of such land to purchase in fee simple, a proportionate share of such land on which their homes are situated through the exercise of the City's power of eminent domain to acquire such fee simple interest to such land and public financing of such purchase and such condemnation and payment through the issuance of bonds, the expenditure of general revenue funds and the use of private funds which are at the disposal of the City, will help to satisfy the pressing public necessity for a secure, strong and stable Oahu economy.

The use of the City's eminent domain power to condemn the fee simple title to residential condominium, cooperative housing units and residential planned development land and the payment of just compensation therefor for the purpose of making proportionate shares of the fee simple title thereto and the use thereof available for acquisition by people who are condominium lessees, cooperative housing unit owners and owners of planned development units under leases of such land on which their homes are situated, or who face imminent expiration of such leases and the potential surrender, altogether, of title to and possession of their residential condominium apartments, cooperative housing units and planned development units in accordance with such leases is for a public use and purpose.

The power of the City to use eminent domain to effectuate the purposes and objectives of this Bill is granted to the City under Sections 46-1.5(6), (13) and (16) and Chapter 101, Hawaii Revised Statutes.

(b) It is therefore declared to be necessary and it is the purpose of this Ordinance to alleviate the conditions found in subsection (a) of this ordinance by providing for the right of any person who is a lessee or owner under a long-term lease of residential condominium, cooperative housing unit or residential planned development land on Oahu to purchase at a fair and reasonable price a proportionate share of the fee simple title to such land, by providing for the condemnation of the fee simple title to such land and the payment of just compensation therefor by the City through the use of its eminent domain power and by providing for the public financing of such purchase and such condemnation and payment through the issuance of bonds, the expenditure of general revenue funds and the use of private funds which are at the disposal of the City.

SECTION 2. The Revised Ordinances of Honolulu is amended by adding a new chapter to be appropriately designated and to read as follows:

CHAPTER ____

RESIDENTIAL CONDOMINIUM, COOPERATIVE HOUSING AND RESIDENTIAL PLANNED DEVELOPMENT LEASEHOLD CONVERSION

ARTICLE 1. GENERAL PROVISIONS.

Sec. ___-1.1. Purpose. The purpose of this Chapter is to establish the right of any person, who is a lessee under any long-term lease of land upon which are situated either

residential condominium property regime projects created under Chapter 514A, Hawaii Revised Statutes, cooperative housing unit projects or residential planned development projects, to purchase at a fair and reasonable price the fee simple title to such land.

Sec. ___ -1.2. Definitions. Unless otherwise clear from the context, as used in this Chapter:

"Association of apartment owners" has the same meaning as in Section 514A-3, Hawaii Revised Statutes.

"City" means the City and County of Honolulu.

"Condominium" means a residential apartment, together with an appurtenant undivided interest in common elements, located on land subject to a declaration of condominium property regime as defined in Chapter 514A, Hawaii Revised Statutes, together with an appurtenant undivided interest in common elements, both used or occupied, or developed, devoted, intended, or permitted to be used or occupied as a principal place of residence for a single family.

"Condominium property regime" means a condominium property regime project established under Chapter 514A, Hawaii Revised Statutes.

"Cooperative" means a residential apartment in a housing project held, owned, or leased by a cooperative housing corporation.

"Cooperative owner" means the owner of a cooperative.

"Cooperative housing corporation" means a corporation which satisfies the requirements of Section 519-3(d)(1), Hawaii Revised Statutes, or of Chapter 421H, Hawaii Revised Statutes, and the requirements of section 216 of the Internal Revenue Code of 1986, as amended.

"Department" means the City department of housing and community development created by Article 6, Chapter 10, Revised Charter of the City and County of Honolulu 1973, as amended.

"Development" means an area of land, irrespective of size, which:

(1) Is subject to a declaration of condominium property regime pursuant to Chapter 514A, Hawaii Revised Statutes, which condominium property regime contains or is intended to contain condominium apartment units occupied or to be occupied under apartment leases or condominium conveyance documents; or

(2) Contains or is intended to contain a cooperative housing unit project held, owned or leased by a cooperative housing corporation.

(3) Contains or is intended to contain a residential planned unit development project;

To qualify as a development, there shall be 10 or more residential condominium apartment units, cooperative housing apartment units or residential planned development housing units on the land.

"Director" means the director of the department of housing and community development.

"Fair market value" means that amount of money that a purchaser willing, but not obliged, to buy land or an interest in land would pay to an owner willing, but not obliged, to sell the land or interest in land in an open market, taking into consideration all uses to which the land is adapted or might in reason be applied.

"Fee owner" means the person who owns the fee simple title to the land leased under an apartment lease, condominium conveyance document, or proprietary lease, including a life tenant with a remainder over, vested or contingent, and a holder of a defeasible estate, and the person's heirs, --successors; -legal representatives, and assigns.

"Lease" means the conveyance of land or an interest in land by a fee simple owner as lessor, to a lessee or sublessee, or by any other person as sublessor to any person, in consideration of payment of rent or other recompense. With respect to a cooperative, lease means a ground lease to the cooperative housing corporation and not leases to the individual apartment unit owners.

"Leased fee" and "leased fee interest" mean reversionary interests of the fee owner, lessor, and all legal and equitable owners of land which is leased, other than the lessee's or sublessee's interest.

"Legal and equitable owners" means the fee simple owner and all persons having legal or equitable ownership interests in the leased fee or in the lessor's leasehold estate, including mortgagees, developers, lienors, and sublessors, and their respective heirs, successors, legal representatives, and assigns.

"Lessee" means any person to whom land is leased or subleased, including the person's heirs, successors, legal representatives, and assigns and who is the owner-occupant of the residential condominium unit, residential cooperative housing unit or residential planned development unit.

"Lessor" means any person who leases or subleases land to another, and the person's heirs, successors, legal representatives and assigns.

"Person" means any person who leases or subleases land from a lessor and, for purposes of this chapter, means the same as the term "lessee" as used in this chapter.

"Planned development" means a housing development project, also known as a cluster housing development or planned unit development, where the apartment owner holds a leasehold interest in the lot under his or her unit, and provided that this interpretation excludes any planned unit development covered by Chapter 516, Hawaii Revised Statutes.

The terms "lessors," "lessees," "fee owner," and "legal and equitable owners" include individuals, both masculine and feminine, and the terms also include corporations, firms, associations, trusts, estates, and the state and the City and County of Honolulu. When more than one person are the lessors, lessees, fee simple owners, fee owners, or legal and equitable owners of a lot, the terms apply to each of them, jointly and severally.

The term "owner-occupant" means any individual in whose name sole or joint legal title is held in a residential condominium unit, residential cooperative apartment unit or residential planned development unit which, simultaneous to the individual's ownership, serves as the individual's principal place of residence for a period of not less than one year immediately prior to application for conversion, as well as during the period pending legal proceedings to acquire the fee; provided that the individual shall retain complete possessory control of the premises of the residential unit during these periods. An individual shall not be deemed to have complete possessory control of the premises if the individual rents, leases, or assigns the premises for any period of time to any other person in whose name legal title is not held. Proof of residency and possessory control shall be as established by rules adopted by the Department.

The term "owner-occupant-shareholder" means any individual who is a sole or joint legal owner of shares in a cooperative housing corporation or trust and leases a cooperative apartment unit which, simultaneous to the individual being a shareholder, serves as the individual's principal place of residence for a period of not less than one year immediately prior to application for conversion, as well as during the period pending legal proceedings to acquire the fee; provided that the individual shall retain complete possessory control of the premises of the unit during these periods. An individual shall not be deemed to have complete possessory control of the premises of the unit if the individual rents, leases, or assigns the premises for any period of time to any other person who is not a shareholder and does not have a proprietary lease to the cooperative apartment unit. Proof of residency and possessory control shall be as established by rules adopted by the Department.

For purposes of this Chapter, the terms "residential condominium apartment," "residential condominium housing unit," "residential cooperative housing unit," "residential cooperative apartment unit," or "residential planned development unit," shall not include the following:

(1) A unit used for commercial purposes;

(2) A unit used as a time share unit or transient vacation unit as defined under Chapter 21A, article 9; or

(3) Any other nonresidential condominium, cooperative, or planned development unit.

Sec. ___-1.3. Applicability. This Chapter applies to all lands, in the City and County of Honolulu on which are situated either residential condominium property regime projects created under Chapter 514A, Hawaii Revised Statutes, cooperative housing units projects or residential planned development projects owned or held privately or by the City and County of Honolulu or by the State, except Hawaiian home lands subject to Article XII of the Constitution of the State and lands owned or held by the federal government. This Chapter is not meant to supersede or preclude any other remedy at law available to condominium apartment owners, cooperative housing corporations or owners of residential planned development units, including those available under Chapter 480, Hawaii Revised Statutes.

Sec. ___ -1.4. No Estoppel or Waiver. The rights granted to lessees by this Chapter shall be effective, notwithstanding any provision in any lease, contract, covenant, bylaw, or articles of incorporation to the contrary. No lessee shall be estopped by any covenant, term, condition, or contract, however worded, from claiming the rights granted by this Chapter, or otherwise be deemed to have waived those rights. Any provision in any lease, covenant, contract, bylaw or article of incorporation contrary to the intent or purpose of this Chapter shall be void.

Sec. ___-1.5. Trusts and Estates. The rights granted to lessees by this Chapter shall be effective, notwithstanding any condition or provision to the contrary in any instrument creating any life tenancy, defeasible fee, estate, or trust, regardless of whether the tenancy, fee, estate, or trust was in effect prior to the effective date of this Chapter or is created hereafter; and the life tenant, holder, officer, or trustee of any tenancy, defeasible fee, estate, or trust may convey residential leases for terms exceeding 20 years and shall perform all acts required by this Chapter. Every instrument of this type now in existence or hereafter executed shall be construed in conformity with the intent and purpose of this Chapter. No trustee, officer, or agent of a lessor or other legal or equitable owner, while acting pursuant to this Chapter, shall be deemed to be acting in bad faith or to have committed a breach of trust.

Sec. ___-1.6. Penalty. Any person who violates any provision of this Chapter shall be fined not more than $1,000.00 or imprisoned not more than one year, or both. All fines collected shall be deposited in the fee simple revolving fund created by Section ___-6.1.

Sec. ___-1.7. Administration of Chapter. The department of housing and community development shall administer this Chapter.

Sec. ___ -1.8. Department's Duties Generally. In addition to any other duty prescribed by law and in this Chapter, the director of the department of housing and community development shall:

(1) Within six months after the effective date of this Chapter, adopt in accordance with Chapter 91, Hawaii Revised Statutes, rules necessary to effectuate the purposes of this Chapter;

(2) Be responsible for enforcement of this Chapter and the rules adopted pursuant to it;

(3) Establish reasonable fees to be assessed and collected from lessees for the services of any appraiser;

(4) Disseminate information and render assistance to lessees of residential condominiums, cooperative housing developments and residential planned developments in order that this Chapter may be understood and effectively implemented;

(5) Conduct an investigation upon any written complaint or whenever it appears that a provision of this Chapter has been or is being violated. In the investigation, the director may examine the books, accounts, records, and files of any person connected with the matter under investigation and conduct hearings. If the director finds from satisfactory evidence that any person has violated or is violating this Chapter, the director may order the person to cease and desist from continuing the violation or engaging in or doing any act or acts in furtherance thereof and, where necessary, the director may bring an action in the name of the city and county of Honolulu in any court of competent jurisdiction for enforcement of its orders;

(6) Facilitate the acquisition of all necessary property interests by the city through eminent domain proceedings as provided in this Chapter;

(7) Facilitate the making and execution of contracts, mortgages, and other instruments necessary or convenient to the exercise of the powers of the city under this Chapter;

(8) From time to time, require from the lessors of leases of residential condominiums, cooperative housing developments and residential planned developments and from all fee owners and legal and equitable owners of such condominiums, cooperatives and planned developments subject to leases of land, such information as it may reasonably require in connection with the administration of this Chapter; and

(9) Do all things necessary and convenient to carry out the powers expressly conferred upon the director by this Chapter.

Sec. ___-1.9. Quitclaim Deeds. Unless otherwise provided by law, the city shall issue quitclaim deeds whenever it conveys, transfers, sells or assigns any property developed, constructed, or sponsored under this Chapter.

ARTICLE 2. CONDEMNATION OF CONDOMINIUM DEVELOPMENT LEASEHOLDS

Sec. ___-2.1. Applicability. This article applies to developments which, at the time of acquisition of the development by the City, are:

(1) Developed into condominium property regimes or occupied by residential lessees under leases or condominium conveyance documents executed before the effective date of this Chapter; or

(2) Developed or partially developed into condominium property regimes occupied or to be occupied by residential lessees under apartment leases or condominium conveyance documents executed on or after the effective date of this Chapter; provided, that 90 percent of the leases to units in the condominium have been executed.

Sec. ___-2.2. Designation of Development for Acquisition. (a) Subject to subsection (b), the department may designate all or that portion of a development containing residential condominium land for acquisition, and facilitate the acquisition of the applicable leased fee interests in that land by the City through the exercise of the power of eminent domain or by purchase under the threat of eminent domain, after:

(1) At least twenty-five (25) of all the condominium owners within the development or at least owners of fifty percent (50%) of the condominium units, whichever number is less, apply to the department to purchase the leased fee interest pursuant to section -2.4, and file an application with the department; and

(2) Due notice is given and a public hearing held, the time and place of which have been duly advertised in a newspaper of general circulation in the City and County of Honolulu, on at least three different days, the last publication being not less than five days before the date of hearing, the department finds that the acquisition of the leased fee interest in the development or a portion thereof, through exercise of the power of eminent domain or by purchase under threat of eminent domain and the disposition thereof as provided in this part, will effectuate the public purposes of this Chapter. For purposes of this subsection, "condominium owners" means the owner-occupants of the condominium development.

(b) The land designated and acquired by the City may consist of a portion of or the entirety of the land area submitted to the declaration of condominium property.

Sec. ___--2.3. Purchase of leased fee interest. The condominium lessees who have authorized approval and who have qualified for purchase of the leased fee interest, shall purchase from the City within 60 days of acquisition of the interest by the City, the leased fee interest appertaining to their condominiums, together with an undivided leased fee interest equal to the percentage of common interest appurtenant to the lessee's condominium units, subject to the terms, covenants, and conditions of the contract executed with the City. If any lessee refuses to enter into such a contract, then in that event,

such lessee shall pay to the City all costs incurred by the City in the acquisition of the appurtenant condominium leased fee interest within the development including but not limited to appraisal costs, costs of publication, and survey, and the department is authorized to take whatever action it deems necessary to collect the costs; and provided further, that in case of a willful breach of the purchase agreement, the City shall be entitled to any available remedy, including the sale of its interest in the condominium.

Sec. ___-2.4. Qualification for purchase. (a) No sale of any condominium land within a development shall be made unless the lessees:

(1) Are at least 18 years of age and are owner-occupants of their condominium units;

(2) Are bona fide residents of the City and County of Honolulu;

(3) Have legal title to, or pursuant to an agreement of sale, have an equitable interest in a condominium situated on the leased property applied for; provided that for purposes of this section, the vendor under such agreement of sale shall not be eligible to purchase that property. An "agreement of sale" means an executory contract for the sale and purchase of real property which binds one party to sell and the other party to buy property which is the subject matter of the transaction;

(4) Do not own property in fee simple lands suitable for residential purposes within the city and county of Honolulu or have pending before the State housing finance and development corporation, or the City department of housing and community development an unrefused application to lease or purchase residential real property for dwelling unit purposes. A person is deemed to own lands, for the purpose of this paragraph, if the person, the person's spouse, or both the person and the person's spouse (unless separated and living apart under a decree of a court of competent jurisdiction) own lands, including any interest in a land trust in the city and county of Honolulu;

(5) Submit a letter of credit, certificate of deposit, proof of funds, or approved application from any lending institution demonstrating that the lessees who are participating in the purchase of the fee interest will be able to pay the City promptly for the leased fee interests;

(6) Submit an application for the purchase of the leased fee interest in good faith, and in such form as is acceptable to the department; and

(7) Execute a contract for the purchase of the fee interest in such form as is acceptable to the department.

(b) In the event of a wilful breach of contract by the lessees, the City may sell or assign its interest without respect to the requirements of this section.

(c) The department may require additional testimony or evidence under oath in connection with any application. The determination by the department of any applicant's eligibility under this part shall be conclusive as to all persons thereafter dealing with the property; provided, that the making of any false statement knowingly by applicants or other persons in connection with any application shall constitute perjury and be punishable as such.

(d) The department shall adopt rules under Chapter 91, Hawaii Revised Statutes, to effectuate the purposes of this section.

Sec. ___-2.5. Deposits by lessees. (a) The department may require the submission of a deposit by lessees seeking to purchase the leased fee interest in their condominiums pursuant to this Chapter. The means of determining the amount of the deposit shall be established by rule.

(b) The deposit may be applied by the department to payment of appraisal, survey, attorney fees, administrative costs, and any other costs the department has incurred as a result of the designation, with the remainder of the deposit to be applied toward the purchase of the owner's fee interest. The department shall incur no liability for the deposits under this section.

Sec. ___-2-6. Preliminary negotiation required. (a) Upon the filing with the department of an application by the lessees in accordance with Sec. ~2.2(a)(l) of this Article, the department shall request the lessor and the lessees to negotiate the just compensation which the lessees will pay to the lessor to acquire the lessor's interest in the development. If no agreement is reached within 60 days after the request to negotiate, the parties shall simultaneously exchange written final offers together with any appraisals, other documents, and any other expert opinions on which their negotiating positions were based. Copies of the final offers and related documents shall be submitted to the department and the department may use the information in determining, prior to commencing condemnation proceedings, the probability that the lessees will be able to meet the financial requirements of section - -2.4(5).

(b) This preliminary negotiation shall be in advance of and shall not constitute any part of any action in condemnation or eminent domain.

Any offers, appraisals, other documents, or any other expert opinions giving a value of the lessor's interest in the condominium development which were prepared by a party for use in preliminary negotiations as provided for in this section, for setting qualification amounts pursuant to section -2.4(5) or for negotiations to determine the just compensation after designation to acquire the lessor's interest in the development, and were not prepared for use in the trial shall not be discoverable, usable, or admissible by an opposing or adverse party in any action, suit, or proceeding brought under this Chapter.

Sec. ___-2.7. Eminent domain trial. The parties to the eminent domain action brought under this Chapter shall be the City as plaintiff and the lessees, and the lessors and

all other necessary parties as defendants. All parties shall be given an opportunity to present evidence of the fair market value of the leased fee interest being acquired.

ARTICLE 3. CONDEMNATION OF COOPERATIVE HOUSING DEVELOPM[ENT LEASEHOLDS.

Sec. ___-3.1. Applicability. This Article applies to developments which, at the time of acquisition of the development by the City, are leased to cooperative housing corporations that sublease individual apartments to residential lessees under proprietary leases executed either prior to or after the effective date of this Chapter; provided that ninety per cent of the proprietary leases to the cooperative have been executed.

Sec. ___-3.2. Designation of development for acquisition. (a) Subject to subsection (b), the department may designate all of a development for acquisition, and facilitate the acquisition of the leased fee interests in the development by the City through the exercise of the power of eminent domain or by purchase under the threat of eminent domain after:

(1) The cooperative housing corporation applies to the department to purchase the leased fee interest pursuant to section -3.4 after the cooperative housing corporation receives approval from its shareholders; and

(2) If, after due notice and public hearing, the time and place of which have been duly advertised in a newspaper of general circulation in the City and County of Honolulu, on at least three different days, the last publication being not less than five days before the date of hearing, the department finds that the acquisition of the leased fee interest in the development, through exercise of the power of eminent domain or by purchase under threat of eminent domain and the disposition thereof as provided in this article will effectuate the public purposes of this Chapter. The development designated and acquired by the City shall consist of the entire land parcel leased to a cooperative housing corporation.

(c) Where the cooperative housing development consists of both residential and nonresidential units, the terms "development", "cooperatives", or similar terms when used in this article, including the provisions on acquisition, disposal, and financing of cooperatives and developments, shall be construed to apply only to the residential units.

Sec. ___-3.3. Purchase of leased fee interest. The cooperative housing corporation which has applied to the department and which has qualified for purchase of the leased fee interest, shall purchase from the City within 60 days of acquisition of the interest by the City, the entire leased fee interest appertaining to the cooperative subject to the terms, covenants, and conditions of the contract executed with the City provided that:

(1) If the cooperative housing corporation refuses to enter into such a contract, then it shall pay to the City all costs incurred by the City in the acquisition of the leased fee interest including, but not limited to, appraisal costs, costs of

publication, and survey, and the department is authorized to take whatever action it deems necessary to collect these costs; In case of a wilful breach of the purchase agreement, the City shall be entitled to any available remedy, including the sale of its interest in the cooperative.

Sec. ___-3.4. Qualification for lease or purchase. (a) No sale of any leased fee interest in a cooperative housing development to a cooperative housing corporation shall be made unless the cooperative housing corporation satisfies the following requirements:

(1) Submission of proof, in such form as is acceptable to the department, that a majority of the shareholders of the cooperative housing corporation have approved or ratified the purchase of the leased fee interest of the development;

(2) Submission of a letter of credit, certificate of deposit, proof of funds, or approved application from any lending institution demonstrating that the cooperative housing corporation will be able to promptly pay the City for the leased fee interest;

(3) Submission of an application for purchase of the leased fee interest in good faith, and in such form as is acceptable to the department;

(4) Execution of a contract for the purchase of the leased fee interest in such form as is acceptable to the department; and

(5) Submission of proof, in such form as is acceptable to the department, that at least 60 percent of the cooperative housing corporation consists of owner-occupant-shareholders of residential units within the affected cooperative housing development.

(b) In the event of a willful breach of contract by the cooperative housing corporation, the City may sell or assign its interest without respect to the requirements of this section.

(c) The department may require additional testimony or evidence under oath in connection with any application. The determination by the department of any applicant's eligibility under this part shall be conclusive as to all persons thereafter dealing with the property; provided that the making of any false statement knowingly by applicants or other person in connection with any application shall constitute perjury and be punishable as such.

(d) The department shall adopt rules under Chapter 91, Hawaii Revised Statutes, to effectuate the purposes of this section.

Sec. ___-3.5. Deposits by lessees. (a) The department may require the submission of a deposit by the cooperative housing corporation applying to the department

for the purchase of the leased fee interest pursuant to this Chapter. The amount of the deposit shall be established by rule.

(b) The deposit may be applied by the department to payment of appraisal, survey, attorney fees, administrative costs, and any other costs the department has incurred as a result of the designation, with the remainder of the deposit to be applied toward the purchase of the owner's fee interest. The department shall incur no liability for those deposits under this section.

Sec. ___-3.6. Preliminary negotiation required. (a) Upon the filing of a petition by the cooperative housing corporation with the department, the department shall request the lessor and the cooperative housing corporation to negotiate the just compensation which the cooperative housing corporation will pay to the lessor to acquire the lessor's interest in the development. If no agreement is reached within 60 days after the request to negotiate, the parties shall simultaneously exchange written final offers together with any appraisals, other documents, and any other expert opinions on which their negotiating positions were based. Copies of the final offers and related documents shall be submitted to the department and the department may use the information in determining, prior to commencing condemnation proceedings, the probability that the cooperative housing corporation will be able to meet the financial requirements of section ___.~-3.4(2).

(b) This preliminary negotiation shall be in advance of and shall not constitute any part of any action in condemnation or eminent domain.

Any offers, appraisals, other documents, or any other expert opinions giving a value of the lessor's interest in the land beneath the development, which were prepared by a party for use in

preliminary negotiations as provided for in this section, for setting qualification amounts pursuant to section -3.4(2) or for negotiations to determine the just compensation after designation to acquire the lessor's interest in the development, and were not prepared for use in the trial, shall not be discoverable, usable, or admissible by an opposing or adverse party in any action, suit, or proceeding brought under this Chapter.

Sec. ___-3.7. Eminent domain trial. The parties to the eminent domain action brought under this Chapter shall be the City as plaintiff and the cooperative housing corporation, lessors, landowners and all other necessary parties as defendants. All parties shall be given an opportunity to present evidence of the fair market value of the leased fee interest being acquired.

ARTICLE 4. CONDEMNATION OF RESIDENTIAL PLANNED DEVELOPMENT LEASEHOLDS

Sec. ___-4.1. Applicability. This Article applies to residential planned developments which, at the time of acquisition of the development by the City, are:

(1) Developed into residential planned developments and occupied by residential lessees under apartment leases or planned development conveyance documents executed before the effective date of this Chapter, or

(2) Developed or partially developed into such planned developments occupied or to be occupied by residential lessees under apartment leases or planned development conveyance documents executed on or after the effective date of this Chapter; provided that 90 percent of such leases to the planned unit development have been executed.

Sec. ___-4.2. Designation of development for acquisition. (a) Subject to subsection (b), the department may designate all or a portion of the land beneath a planned development containing residential units for acquisition, and facilitate the acquisition of the applicable leased fee interests in such land by the City through exercise of the power of eminent domain or by purchase under the threat of eminent domain, after:

(1) At least twenty-five (25) of all the owners within the development or at least owners of fifty percent (50%) of the residential units, whichever number is less, of all the owners within the planned development apply to the department to purchase the leased fee interest pursuant to section -4.4, and file the application with the department; and

(2) Due notice and public hearing, the time and place of which have been duly advertised in a newspaper of general circulation in the city and county of Honolulu, on at least three different days, the last publication being not less than five days before the date of hearing, the department finds that the acquisition of the leased fee interest in the development or a portion thereof, through exercise of the power of eminent domain or by purchase under threat of eminent domain and the disposition thereof as provided in this part will effectuate the public purposes of this Chapter.

For purposes of this subsection, "owners," as used in Sec. -4.2(a)(1) means the owner-occupants of the planned developments.

The land designated and acquired by the city may consist of a portion of or the entire land area submitted to the declaration of planned development.

Sec. 4.3. Purchase of leased fee interest. The planned development lessees, who have authorized approval and who have qualified for purchase of the leased fee interest, shall purchase from the city within sixty days of acquisition of the interest by the city, the leased fee interest appertaining to the planned development unit, together with an undivided leased fee interest equal to the percentage of common interest appurtenant to their units, subject to the terms, covenants, and conditions of the contract executed with the city; if any lessees refuse to enter into such contract, then in that event, those lessees shall pay to the city all costs incurred by the city in the acquisition of the relevant planned development within the development including but not limited to appraisal costs, costs of publication, and survey, and the department is authorized to take whatever action it deems necessary to collect the costs; and provided further that in case of a wilful breach of the

purchase agreement, the city shall be entitled to any available remedy, including the sale of its interest in the planned development.

Sec. ___ -4.4. Qualification for purchase. (a) No sale of any leased fee interest in land under a residential planned development land shall be made unless the lessees:

(1) Are at least eighteen years of age and are owner-occupants of their residential planned units;

(2) Are bona fide residents of the city and county of Honolulu;

(3) Have legal title to, or pursuant to an agreement of sale an equitable interest in a planned unit development situated on the leased property applied for; provided that for purposes of this section, the vendor under such agreement of sale shall not be eligible to purchase that property. An "agreement of sale" means an executory contract for the sale and purchase of real property which binds one party to sell and the other party to buy property which is the subject matter of the transaction;

(4) Do not own property in fee simple lands suitable for residential purposes within the city and county of Honolulu or have pending before the state housing finance and development corporation, or the city department of housing and community development an unrefused application to lease or purchase residential real property for dwelling unit purposes. A person is deemed to own lands herein if the person, the person's spouse, or both the person and the person's spouse (unless separated and living apart under a decree of a court of competent jurisdiction) own lands, including any interest in a land trust in the city and county of Honolulu;

(5) Submit a letter of credit, certificate of deposit, proof of funds, or approved application from any lending institution demonstrating that the lessees who are participating in the
purchase of the fee interest will be able to pay the City promptly for the leased fee interests;

(6) Submit an application for the purchase of the leased fee interest in good faith, and in such form as is acceptable to the department; and

(7) Execute a contract for the purchase of the fee interest in such form as is acceptable to the department.

(b) In the event of a wilful breach of contract by the lessees of the residential planned development, the City may sell or assign its interest without respect to the requirements of this section.

(c) The department may require additional testimony or evidence under oath in connection with any application. The determination by the department of any applicant's eligibility under this part shall be conclusive as to all persons thereafter dealing with the property; provided that the making of any false statement knowingly by applicants or other

persons in connection with any application shall constitute perjury and be punishable as such.

(d) The department shall adopt rules under Chapter 91, Hawaii Revised Statutes, to effectuate the purposes of this section.

Sec. ___-4.5. Deposits by lessees. (a) The department may require the submission of a deposit by lessees seeking to purchase the leased fee interest in their planned development housing unit pursuant to this Chapter. The amount of the deposit shall be established by rule.

(b) The deposit may be applied by the department to payment of appraisal, survey, attorney fees, administrative costs, and any other costs the department has incurred as a result of the designation, with the remainder of the deposit to be applied toward the purchase of the owner's fee interest. The department shall incur no liability for the deposits under this section.

Sec. ___-4.6. Preliminary negotiation required. (a) Upon the filing of a petition by the lessees with the department, the department shall request the lessor and the lessees to negotiate the just --compensation which the lessees will pay to the lessor to acquire the lessor's interest in the development. If no agreement is reached within 60 days after the request to negotiate, the parties shall simultaneously exchange written final offers together with any appraisals, other documents, and any other expert opinions on which their negotiating positions were based. Copies of the final offers and related documents shall be submitted to the department and the department may use the information in determining, prior to commencing condemnation proceedings, the probability that the lessees will be able to meet the financial requirements of section --4.4(5).

(b) This preliminary negotiation shall be in advance of and shall not constitute any part of any action in condemnation or eminent domain.

Any offers, appraisals, other documents, or any other expert opinions giving a value of the lessor's interest in the land beneath the planned development, which were prepared by a party for use in preliminary negotiations as provided for in this section, for setting qualifications amounts pursuant to section --4.4(5) or for negotiations to determine the just compensation after designation to acquire the lessor's interest in the development and were not prepared for use in the trial, shall not be discoverable, usable, or admissible by an opposing or adverse party in any action, suit, or proceeding brought under this Chapter.

Sec.___-4.7. Eminent domain trial. The parties to the eminent domain action brought under this chapter shall be the City as plaintiff and the lessees, lessors, landowners and all other necessary parties as defendants. All parties shall be given an opportunity to present evidence of the fair market value of the leased fee interest being acquired.

ARTICLE 5. EMINENT DOMAIN.

Sec. ___-5.1. Applicability. This article applies to developments which are created by condominium property regimes under Chapter 514A, Hawaii Revised Statutes, and to developments existing under cooperative housing corporation status, and to residential planned developments not covered by Chapter 516, Hawaii Revised Statutes.

Sec. ___--5.2. Exercise of power of eminent domain. Within 12 months after the designation of the development or portion thereof for acquisition, the department shall facilitate the acquisition of the leased fee interest in the land beneath the development by the city and county of Honolulu through voluntary action of the parties, or the institution of eminent domain proceedings to acquire the leased fee interest or portion thereof so designated. If the leased fee interest is not acquired or eminent domain proceedings are not instituted within the 12 month period, the city shall reimburse the fee owner, the lessor, and the legal and equitable owners of land so designated for actual out-of-pocket expenses they incurred as appraisal, survey, and attorney fees as a result of the designation.

Sec. ___ --5.3. Compensation. The compensation to be paid for the leased fee interest shall be the current fair market value of the leased fee interest. The compensation shall be determined as of the date of the summons of the complaint in eminent domain.

Sec. ___--5.4. Interest acquired. (a) Upon acquisition of a development or portion thereof as provided in this article, the property interest acquired by the City is all of the right, title, and interest of the fee owner, and of the lessor and fee owner and all legal and equitable owners, if any besides the lessor, in and to the development or portion thereof acquired, subject to all covenants, conditions, easements, reservations, and restrictions of record running with the land or contained in the agreement of sale, deed, or other conveyance held by the fee owner, lessor, and legal and equitable owners or permitted or suffered by lessees of existing residential condominium or cooperative housing corporation leases, which are not inconsistent with the intent of this article. The acquisition terminates all the right, title, and interest of the fee owner, lessor, and all legal and equitable owners, whether such interest be a remainder, vested or contingent, a reversion, or other beneficial interest in the property, present or prospective.

(b) If the apartment lease, condominium conveyance document, or proprietary lease is subject to any leasehold mortgage, lien, or encumbrance suffered or permitted by the lessee, including, but not limited to, rights arising through divorce, marriage, or assignment, the purchase of the leased fee by the lessee in no manner shall affect or impair such mortgage, lien, or encumbrance or the security afforded thereby to the holder thereof, and the leasehold shall continue, notwithstanding the purchase of the leased fee by the lessee, for the purpose and to the extent necessary to avoid any impairment of the leasehold security, unless the holder of the leasehold mortgage, lien, or encumbrance in writing consents to the transfer thereof to the fee and merger as provided in this Chapter. Upon written consent by the holder thereof, each leasehold mortgage, lien, or encumbrance to which the apartment lease, condominium conveyance document or proprietary lease is subject and to which the consent refers shall be transferred to and shall bind the fee acquired by the lessee, and thereafter shall continue in full force and effect as a mortgage, lien, or encumbrance of the fee acquired by the lessee, in the same order and priority

among such mortgages, liens, and encumbrances so transferred to the fee as the same applied to and bound the lessee's immediate, previous leasehold interest.

Sec. ___--5.5. Interest in compensation paid by the City. The lessor, the fee owner, and all legal and equitable owners shall share in the compensation paid by the City as their respective interest shall appear. Notwithstanding any provision to the contrary in any contract or lease, a developer or other person entitled to share in the lease rentals shall share in the compensation paid by the City to the extent of the person's interest as may be determined by agreement of those entitled to share in the compensation paid by the City and in the absence of such agreement pursuant to Chapter 658, Hawaii Revised Statutes.

Sec. ___--5.6. Compulsory or involuntary conversion. It is the intent of the council, within the meaning of section 1033 or section 1231 of the Internal Revenue Code or the applicable provisions of Chapter 235, Hawaii Revised Statutes, as well as all other statutes, rules, regulations, administrative orders, and legal interpretations within the federal and state governments relating to taxation, that any conveyance of title to property by a fee owner to the City under this part shall constitute a compulsory or involuntary conversion, as a result of the exercise of the power of condemnation or the threat of imminence thereof, and that the fee owner shall not, by reason in whole or in part of any provision of this Chapter or by reason of the execution by the fee owner of leases to the property -and other properties subsequent to the date of approval of this Chapter, be deemed to hold the property primarily for sale to customers in the ordinary course of trade or business.

ARTICLE 6. REVOLVING FUND.

Sec. ___-6.1. Fee simple condominium and cooperative and planned unit development revolving fund. A fee simple condominium and cooperative and planned unit development revolving fund is hereby created. The funds appropriated for the purposes of this Chapter and all moneys received or collected by the department of housing and community development under this Chapter shall be deposited in the revolving fund. The proceeds in the fund shall be used for the necessary expenses of the department, including administration, under this Chapter. All interest earned on moneys deposited by lessees into this revolving fund shall accrue to the lessees."

SECTION 3. If any article, section, sentence, clause, or phrase of this Chapter, or its application to any person or transaction or other circumstances, is for any reason held to be unconstitutional or invalid, the remaining articles, sections, sentences, clauses, and phrases of this Chapter, or the application of this Chapter to other persons or transactions or circumstances, shall not be affected. The council hereby declares that it would have passed this Chapter and each article, section, clause, or phrase thereof, irrespective of the fact that any one or more articles, sections, sentences, clauses, or phrases of this Chapter, or its application to any person or transaction or other circumstance, be declared unconstitutional or invalid.

SECTION 4. This ordinance shall take effect on January 1, 1992.

INTRODUCED BY:

John Henry Felix

_____
_____
_____
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_____
_____
_____
_____
Councilmembers

DATE OF INTRODUCTION:

December 28, 1990
Honolulu, Hawaii

APPROVED AS TO FORM AND LEGALITY:

_____
Deputy Corporation Counsel

APPROVED this _____ day of _____

FRANK F. FASI, Mayor
City and County of Honolulu

APPENDIX E

LEASEHOLD CONVERSION OF CONDOMINIUMS AND COOPERATIVE HOUSING PROJECTS PHASE I

Prepared for:
Housing Finance and Development Corporation

Prepared By:

Ezra, O'Connor, Moon & Tam
DHM Planners Inc.
John Child & Co. Inc.
Peat Marwick Main & Co.

November 1987

I. INTRODUCTION

This study was prepared in response to 1987 House Resolution 380 (H.R. 380), "House Resolution requesting the Hawaii Housing Authority to address issues related to leasehold conversion of condominiums and cooperative housing projects." (See Appendix 1)

H.R. 380 requested answers to specific questions related to the property beneath condominiums and cooperative housing projects, and to report its findings to the Legislature 20 days prior to the convening of the 1988 Session.

In May 1987 the Housing Finance and Development Corporation (HFDC), formerly part of the Hawaii Housing Authority, sent out a Request for Proposal to fulfill the requirements of H.R. 380. The consultant team of Ezra, O'Connor, Moon and Tam; DEM Planners Inc.; John Child and Company Inc.; and Peat Marwick Main and Co. were selected to prepare the report.

H.R. 380 requested that interviews be conducted with individuals with varying interests in the lease to fee conversion issue. A list of the persons interviewed is contained in Appendix 2 of this report.

This report represents Phase I of the study and consists of (a) the findings of the interviews, (b) research on the leasehold conversion issue, (c) responses to questions

in H.R. 380, and (d) conclusions and recommendations. HFDC grouped the questions into five different issue areas: General, Policy, Finance and Value, Legal and Tax. This report is organized according -to this grouping.

II. EXECUTIVE SUMMARY

A. CONCLUSIONS/RECOMMENDATIONS

The research and findings of the interviews conducted as a part of this study indicate that there are primarily five areas of concern in the leasehold condominium and cooperative housing system. Proponents of mandatory conversion legislation have raised these five areas of concern as objectives to be achieved by mandatory conversion legislation. They are:

1. Increasing fee simple home ownership
2. Breaking up the oligopoly of land ownership in Hawaii
3. Controlling lease rent
4. Freeing lessees from reversion of improvements provisions in surrender clauses
5. Increasing the number of fee simple condominium and cooperative housing units

The interviews and findings of available market data, which are discussed in detail in this study, do not suggest that a mandatory conversion law is the most effective means to obtaining the first four objectives. Some of these findings indicate:

- Condominium purchases have been dominated by non-owner occupants, and not by individuals seeking home ownership. Only 31 %, or approximately 16,400 of the leasehold residential condominium units in Hawaii, were owner occupied in 1984-1985.

- The oligopoly of land ownership which characterizes the single-family residential leasehold ownership pattern is not completely analogous to the pattern of land ownership underlying condominium and cooperative housing projects. Therefore breaking up the oligopoly of land ownership in Hawaii is not a public purpose which could support mandatory condominium and cooperative fee conversion.

- 89% or 415 of the landowners of the 754 condominium and cooperative projects in Hawaii own land under a single condominium or cooperative project.

- There is no market evidence to suggest that the pattern of renegotiated ground rents for condominiums and cooperatives is unreasonable. Since the late 1950s and

early 1960s, the growth rates between- original and renegotiated ground rents have been consistent with the growth of personal incomes, housing values and consumer prices over similar time periods.

- Voluntary fee conversion programs will provide no assurance that leasehold condominium and cooperative apartment owners will ultimately have the opportunity to purchase their leased fee, particularly in view of the severance damages arising from a sale of partial individual interests in the leased fee.

- A significant number of condominium and cooperative housing projects are scheduled for their first lease rental negotiations starting in 1990, and the ability to obtain long term fixed rate financing for leasehold condominium purchases will diminish as lease terms progress. Therefore, it is anticipated that motivations of lessees and lessors may change significantly as these negotiations draw closer, and that support for leased fee conversion relief will increase.

However, if a public purpose is to be identified as the basis for introduction of mandatory conversion legislation, then the fifth objective, increasing the number of fee Simple condominium and cooperative housing units, could support the introduction of such legislation. Research indicates that on Oahu, where the majority of residential condominium and cooperative projects are located, 60% or 518 of the projects and over 70% or 53,898 of the units are leasehold.

So long as the Legislature determines. that, fee simple ownership of condominium and cooperative housing units is a proper public purpose, mandatory condominium and cooperative fee conversion legislation should be upheld as a proper public use by a federal court following *Hawaii Housing Authority v. Midkiff* or a state court following *Hawaii Housing- Authority v. Lyman.*

In order to afford the Legislature an opportunity to explore a full range of alternative approaches, it is recommended that Phase II of this study explore two different legislative alternatives:

1. To prepare draft legislation for mandatory condominium and cooperative fee conversions to require conversion of 100% of the leased fee interest under a condominium or cooperative project with a high minimum threshold of applicants. The method would appear to be the most equitable manner to implement a mandatory leased fee conversion process.

2. To prepare limited purpose legislation addressing three issues: rent control, reversionary or surrender clauses in apartment leases and the power of apartment owner

associations and cooperative housing corporations to borrow and assess apartment owners to acquire leased fee interests.

The two alternative legislative proposals are recommended to provide the Legislature with a wide range of alternatives for their examination and consideration.

III. FINDINGS

A. General Issues

In 1987 there were approximately 69,300 units in 754 leasehold condominium, cooperative, planned development and cluster projects in the state of Hawaii. Approximately 51,572 units representing approximately 74.5% of all leasehold units were on land zoned for residential apartment use; 8.3% or approximately 5,725 units were on single-family residential-zoned land, and 15.6% or approximately 10,790 units were on mixed apartment/commercial, commercial or industrial zoned land.

Approximately 16,400 units representing 31% of the leasehold residential condominium units in Hawaii were owner occupied in 1984-1985. The highest owner occupancy rate is on Oahu, where nearly 16,000 units or about 34% of all residential units were owner occupied. The owner occupancy rate on the neighbor islands is considerably lower, between 2.9% and 11.5%, having a total of approximately 424 units which were owner-occupied.

In a sample of 66 leasehold projects, all the ground leases extend for at least 50 years, and typically for a term of between 55 and 75 years. By 2040, the leases for over 477 projects representing 75% of all existing projects will have expired. Approximately 57 of the 66 projects sampled, about 87%, have known rent periods ranging between 25 and 35 years. Approximately 56 of the leasehold projects sampled have renegotiated rent periods between 25 years and 40 years. The ground rents during the known and renegotiated rent periods are typically fixed in increments of 5, 10 and 15 years. Rent escalations during the known rent period range typically between 1.0% and 2.9% per year.

The leases for over 50 of the leasehold projects sampled provide for the renegotiated rents to be based on a stated rate of return on the fair market value of the land at the time of rent renegotiation. The rent renegotiation clauses for the remaining projects sampled provide for renegotiation based on fair market rent, a percentage of the rent paid to a master lessor, or rent increases based on the change in the consumer price index. The compound rate of growth between the original and renegotiated ground rents typically ranges between about 1.0% and 5.0% per year. Leases for about 59,200 units in 616 projects, about 90% of the leasehold units in Hawaii, provide for renegotiation of their ground rents between 1990 and 2015.

The median monthly ground rent for the urban Oahu projects sampled was approximately $0.084 per square foot of net apartment area. The monthly median ground rent for suburban Oahu projects sampled was approximately $0.038 per square foot of net apartment area.

As of the date of this study, lessors of 42 leasehold condominium projects (4,870 units) have voluntarily sold leased fee interests to apartment owners. Most of these sales occurred between 1984 and 1987. The participation rate of purchasers for the projects sampled ranges between 2% and 98%. Approximately 3.9% of all leasehold condominium units in Hawaii have been voluntarily converted.

There is no apparent correlation between the owner occupancy rate in a project and the participation rate in the lease to fee conversion. There is also no significant correlation between the length of the remaining fixed rent period and the lease to fee conversion participation rate.

Leasehold projects in Hawaii occupy approximately 1,920 acres. The largest concentration of leasehold condominium development, with 68% of the total (1,298 acres), is on Oahu. The median and mean lot areas are 38,480 square feet and 110,955 square feet, respectively. 577 projects (78%) are located on sites of three acres or less.

B. POLICY ISSUES

The interviews conducted for this study and research into the background and legislative history of the mandatory conversion issue indicate that there are primarily five areas of concern in the leasehold condominium and cooperative housing system. Proponents of mandatory conversion have stated these areas of concern as objectives of mandatory conversion legislation. They are:

1. Increasing fee simple home ownership
2. Breaking up the oligopoly of landownership in Hawaii
3. Controlling lease, rent
4. Freeing lessees from reversion of improvements provisions in surrender clauses
5. Increasing the number of fee simple condominium and cooperative housing units

The available market data collected for this study indicates:

- Non-owner occupants dominate condominium purchases, not individuals seeking home ownership. Approximately 16,400 or 31% of the leasehold condominium units in Hawaii were occupied by owners in 1984-1985.

- The average participation rate in voluntary conversion for non-owner occupants (54.8%) is greater than the average participation rate (32.9%) for owner occupants, a statistic which indicates that purchasers may be motivated by considerations other than the desire to own land under one's residence.[1]

[1] Based upon research of motivations of those who did and did not participate in voluntary conversions.

- Ownership of land lease for condominium and cooperative projects in Hawaii is dominated by small landowners. Approximately 89% or 415 of these lessors own land under a single condominium or cooperative housing project.

- Condominium and cooperative apartment lessees have not yet experienced the significant lease rent increases experienced by single-family residential lessees. Very few condominium and cooperative lessors and lessees have renegotiated their lease rents as of this date. The few renegotiations that have occurred to date are based on annual compound rates of growth ranging from 1 % to 5 % of the original ground rents.

- Many lessees say that they were not informed about the reversion of improvements provisions in surrender clauses. They feel that the clause operates unfairly.

The available market data relating to leasehold condominiums and cooperative housing projects does not suggest that a mandatory conversion law is the best means to obtaining the first four objectives mentioned previously. However, if a public purpose is to be identified as the basis for introduction of mandatory conversion legislation, then the fifth objective, increasing the number of fee simple condominium and cooperative housing units, could support the introduction of such legislation.

Alternatives to address the first four objectives listed previously include:

1. Lease rent control legislation
2. Legislation to modify reversion of improvements provisions in surrender clauses

If increasing the number of fee simple condominium and cooperative housing units is the designated public purpose of mandatory conversion legislation, then there should not be any restrictions, such as owner occupancy or first time landownership, on participation in a mandatory conversion program.

Similarly, if the objective is to increase the number of fee simple *condominium and* cooperative housing units, then all types of residential condominiums and cooperative housing corporations should be included in a mandatory conversion program. The fee underlying the typical high rise *condominium and* cooperative housing corporation building, would be subject to conversion, as well as the fee underlying cluster developments, planned development housing, and mixed commercial/residential buildings.

If mandatory fee conversion is implemented, HFDC's primary role should be advisory and administrative. Enabling legislation could authorize HFDC to acquire leased fee interests on an interim basis, in order to transfer the leased fee interests to individual lessees; or to transfer the interests that are not purchased by individual lessees to a condominium association or cooperative corporation.

For condominium projects, a relatively high minimum percentage of lessees should be required to petition HFDC to initiate condemnation of the leased fee. HFDC should also be empowered to condemn 100% of the leased fee interest. It is also recommended that the association be required to purchase the leased fee interest of those lessees who are unwilling to purchase the fee at the time of conversion.

In the absence of a mandatory unanimous fee conversion requirement, the lessees who do not choose to participate in a fee conversion would continue to lease land underlying their units from the landowner, or they could lease from the condominium owners' association, or whoever purchases the leased fee.

A mandatory unanimous conversion would avoid the inequitable situation that would result to a lessor who would be left with a minority undivided remnant leased fee interest in a project or a building that remains beyond the term of the original lease.

For cooperative housing corporations, a lower minimum percentage (51%) of apartment owners should be required to petition the HFDC to initiate condemnation of the leased fee, but the corporation must purchase the entire leased fee. Since a cooperative has a single lease from the landowner, and the cooperative is organized as a corporation, a simple majority can and should be able to bind all apartment owners.[2]

* * * * *

3. *Who owns condominiums and apartments in cooperative housing projects, transients or investors, and the age ranges of owners or stockholders?*

Based on the number of homeowner's exemption claims for real property taxes, approximately 31% of the leasehold residential condominium units (16,415 units) in the State of Hawaii in 1984-1985 were occupied by owners, as shown in Exhibit F.

The owner occupancy rate is highest on Oahu, at approximately 34% or nearly 16,000 of leasehold units. The owner occupancy rate on the neighbor islands ranges between 2.9% and 11.5%, substantially below the rate on Oahu. Neighbor island units are more likely to be located in resort areas and are often used for second home occupancy and resort rentals.

There were no owner occupants for condominium units classified as "Hotel" by their respective County Tax Offices.[3] Based on data for 1984, there were 5,218 leasehold condominium units in the State of Hawaii which were classified as being used for "Hotel" or short-term rental use, none of

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[2] Under general principles of corporate law, majority vote of the stockholders is sufficient to bind all stockholders unless the articles of incorporation on by-laws otherwise provide.

[3] Based on those leasehold condominiums with a 700 Pitt Code classification which denotes properties used for hotel purposes; actual uses may differ.

which were occupied by home owners. The distribution of these leasehold units by County is shown in Exhibit G.

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The data does not support the conclusion that there is an oligopoly of the ownership of land underlying condominium and cooperative projects. Thus a mandatory conversion law may result in a dilution of ownership of fee simple land underlying condominium and cooperative. projects but would not break up any perceived oligopoly.

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